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FocalTech Systems Co., Ltd.

2021 Annual Report

Prepared by FocalTech Systems Co., Ltd.

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1. Spokesperson, Deputy Spokesperson
Name of Spokesperson: Wei-Chieh Chang
Title: CFO
Tel No.: (886)3-6661660
E-mail: ir@focaltech-electronics.com
Name of Deputy Spokesperson: Wei-Chieh Chang
Title: CFO
Tel No.: (886)3-6661660
E-mail: ir@focaltech-electronics.com
2. Address and Tel Number of Headquarters, Branches and Plant
Headquarters: 4F and 6F, No. 6, Dusing First Road, Hsinchu Science Park, Taiwan
Tel No.: (886)3-6661660
3. Appointment of a professional shareholder services agent: Handling stock transfer and shareholders' regular meeting affairs
Name: Agent Division, CTBC Bank
Address: 5F, No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng District, Taipei City
Tel: (886)2-66365566
Website: www.ctbcbank.com
4. CPA for recent financial reports
Name of CPA: Lilac Shue, Chih-Ming Shao
Name of Office: Deloitte & Touche
Address: 20F, No. 100, Songren Rd., Xinyi District, Taipei City
Tel: (886)2-27259988
Website: www.deloitte.com.tw
5. Website of Overseas Securities Exchange Office & the way to inquire into information of securities: None
6. Company Website: <http://www.focaltech-electronics.com/>

FocalTech Systems Co., Ltd.

2021 Annual Report

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I. Letter to Shareholders

With the impact of the COVID-19 pandemic, people's lifestyles have changed dramatically since 2020, and new business models and different consumers' needs have also been activated accordingly. For example, the rise of work-from-home and distance learning has led to a significant increase in the demand for consumer electronics. Besides this, being driven by trends such as the expansion of 5G-powered mobile apps, the introduction of AMOLED under-screen fingerprint displays, the increase in the number of smartphone camera lenses, etc., and the use of wafers has also increased remarkably. In 2021, as COVID-19 vaccines became more widely available and the pandemic was gradually brought under control, the world economy and consumption potential expanded rapidly, which worsened the situation of the wafer capacity shortage. Through early production capacity deployment and adjustments in 2020, FocalTech remains capable of meeting the strong, new market demand when faced with the difficult situation of wafer capacity shortages.

FocalTech expanded its foundry partnership in 2021, and collaborated with partners on the adjustment of processes and yields to meet brand customers' needs with high-quality products. Our annual IDC shipments in 2021 exceeded 210 million units, showing an increase when compared with 2020, by which both revenue and profits hit record highs. This is an achievement we would like to share with all shareholders and employees.

According to the statistics compiled by Omdia, a research and survey agency, global smartphone shipments in 2021 were 1.34 billion units. Since full in-cell panels have become the mainstream LCD technology for smartphones, its market share grew by nearly 60% in 2021, continuing to expand the overall market size of "Integrated Driver Controllers (IDCs, also known as TDDI)." The brilliant operating performance demonstrated in 2021 is the best proof of FocalTech's success in its long-term commitment in the R&D of this technology.

Meanwhile, due to the tight foundry capacity and rising product demand, the IDC product's quoted price has begun to increase significantly since the fourth quarter of 2020, which brought a positive influence to FocalTech's gross profit margin. FocalTech's 2021 gross profit margin reached 48.79%, indicating an increase of 23.94% compared with 2020. The annual net income was NT\$6.097 billion, representing a new historical record. The earnings per share were NT\$30.23 calculated on a weighted average capital basis.

In addition to the noteworthy development in the IDC market, FocalTech has also become a major supplier of AMOLED products in the world with its leading technology in human-machine interface touch products, which has also brought considerable help to the company's growth. As an important supplier of AMOLED Touch Controller ICs for global mainstream panel factories, FocalTech's shipments of such products multiplied in 2021. The relevant technology has also been successfully promoted in the application of products other than smartphones, such as wearable devices, tablets, eBooks, etc. Moreover, FocalTech's innovative touch gesture and click technology have also been successfully applied in stylus tablets. Touch pad and wearable device product lines also demonstrated excellent

performance in 2021 after years of effort.

In terms of capacitive fingerprint products, FocalTech's 2021 fingerprint product shipments exceeded 10 million pieces, showing that successful mass production for top smartphones and computer brands has been achieved. Our fingerprint, touch, and display products have provided brand customers with complete solutions, facilitating a holistic collaboration between the company and critical customers, and providing more competitive product portfolios to reduce supply chain complexity and development costs. The company has extended deployment in the field of fingerprint technology by continuously improving product performance and developing new technology applications for different scenarios.

With the aim of maintaining its position as the world's leading human-machine interface manufacturer for mobile devices, FocalTech continues to increase R&D investment and retain talents for the enhancement of R&D capabilities. The 2021 R&D expenses were as high as NT\$2.409 billion, indicating an increase of nearly 50% compared with 2020, and accounting for 10.96% of the annual revenue. The number of patent applications lodged by FocalTech in 2021 was 80, and the number of patent certifications obtained was 75, showing FocalTech's persistence in realizing the value of innovation and R&D with practical actions.

In regards to product and technology deployment, FocalTech is continuing its IDC product market expansion; with respect to mobile devices, in order to respond to the needs of display panels with full screen and high frame rate, FocalTech has developed fan-type and high frame rate display products, which have successfully entered the mass production stage in the first half of 2022. In terms of full, in-cell panels used for automobiles, as the market penetration rate of electric vehicles begins to rise, FocalTech's vehicle IDC shipments in 2021 totaled nearly 4 million units, attaining the largest market share. In addition, the full in-cell technology developed for tablets to support stylus applications can offer multi-protocol compatibility. As for smart wearable devices—AMOLED products, in order to respond to the new technological needs for reducing the quantity and size of components inside the end products, FocalTech has developed new-generation IDC chips where display and touch controller chip are integrated, by which the company's leading position in the market has been maintained.

Looking ahead to 2022, although the impact of the COVID-19 and worries arising from political disputes around the world still exist, wafer capacity constraints have been gradually eased, and smartphones technology and panel capacity have also been relocated among different regions. With stable and innovative management guidelines, FocalTech will continue to facilitate the growth of IDC products in non-cell phone and medium/large devices markets. Furthermore, with technology deployment in the trendy AMOLED touch controller panel and display IC combined with fingerprint identification and other technologies, FocalTech's business operations will be further enhanced. More importantly, FocalTech will adhere to the core value of being a leading manufacturer for human-machine interface solutions, and continue to accumulate technologies and intellectual properties to maintain its lead position in industrial technology. FocalTech will keep creating the

maximum value for all shareholders to thank you for your continued support and trust.

Chairman and President: Genda Hu



II. Company Profile

1. Company Introduction

Founded in January 2006, the Company – which was formerly known as Sunshine Sports Tech 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, Mainland 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 more than one IC – needs only a single Integrated Driver Controller (IDC) to drive the Touch and Display Driver 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. Development History

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 flat-panel display driver chips and channel decoders.
	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 th in the IC design industry and ranked 48 th 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.

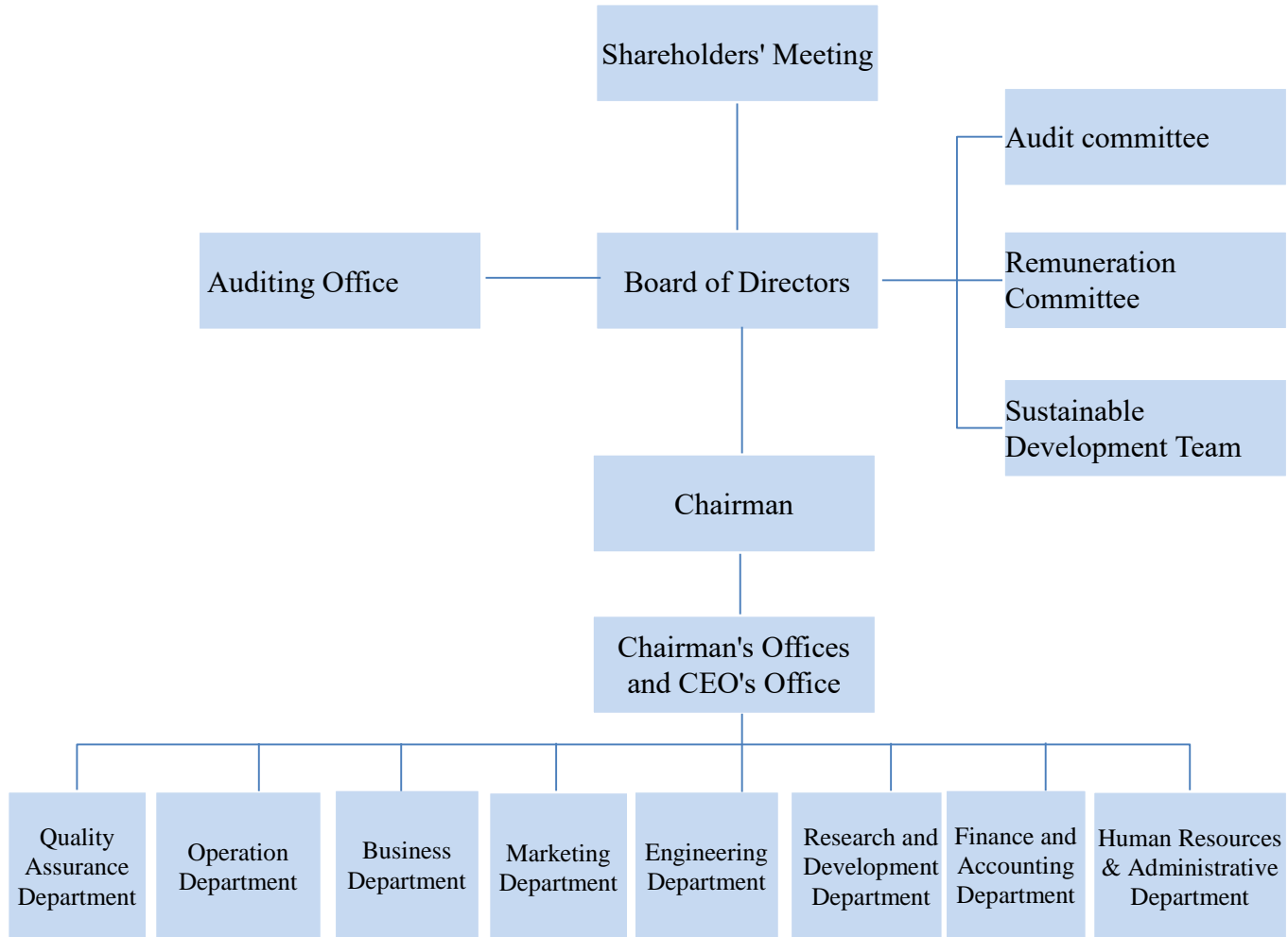
2015	Merged and conducted share-swap with FocalTech Corporation, Ltd. Company renamed as FocalTech Systems Co. Ltd.
	Supplied materials for the world's first mobile phone using a-Si HD, in-cell touch panel combining IDC.
	Launched the world's first single-chip solution to support multi-touch and multi-force touch.
2016	Supplied the Super In-cell IDC for the world's smartphones using FHD low temperature poly-silicon (LTPS) LCD screen with In-cell IDC.
	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 th "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 MUX 6 for FHD panels and Dual Gate for HD panels with a 2-in-1 touch screen display solution.
	Realized an ultra-thin optical fingerprint solution for 5G smartphones.
2020	Successfully developed a side-mounted capacitive fingerprint solution.
	IDC High Frame Rate technology was introduced and the solution went into mass production.
	IDC went into mass production for the automotive factory-installed product market.
	Annual revenue reached a new high.

2021	Annual revenue and profit both reached new record highs.
	The “RhythmCam” app, which detects arrhythmias, was approved by the Ministry of Health and Welfare and won the 2021 National Innovation Award.
	World’s narrowest side-mounted capacitive fingerprint solution successfully went into mass-production for the first time and was adopted by first-tier brand customers.
	First in the industry to successfully develop a curved and gradient-based capacitive fingerprint solution.
	FocalTech Engineering Experiment Center passed the professional evaluation of the Guangdong Association for Science and Technology and was awarded the qualification of “Guangdong Engineering Technology Research Center of Touch and Display Integrated Chip Core Technology”.
	Developed new generation AMOLED wearable IDC to support POLED and LTPO and was adopted by first-tier brand customers.
	AMOLED touch IC shipments exceeded 100 million units in a single year.
	Included as a constituent stock of the MSCI index.
	Awarded the 2021 Best Financially Managed Semiconductor Company by the Global Semiconductor Alliance (GSA).

III. Corporate Governance Report

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, Vice President, Deputy Vice President, Division Heads, and Branch Heads

(1) Directors and Supervisors

1. Profiles of Directors and Supervisors

April 11, 2022; Unit: share; %

Title	Nationality or place of registration	Name	Gender Age	Election (Appointment) 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			Number of shares	Rate of share-holding	Title		Name	Relation
Chairman	U.S.A.	Genda Hu	Male 71~80	June 20, 2020	3 years	Jan. 5, 2015	2,105,841	0.70	1,140,165	0.53	455,072	0.21	4,158,691	1.92	Ph.D. in Electrical Engineering, Princeton University/ IEEE Fellow/ Has served in 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. / Director, President, CEO of FocalTech Systems (Shenzhen) Co., Ltd. / Director, President of FocalTech Electronics (Shenzhen) Co., Ltd. / Director, President of FocalTech Electronics (Shanghai) Co., Ltd. / Director, President of FocalTech Electronics (Shanghai) Co., Ltd. Beijing Branch	Director	GWAA LLC Representative: Chenming Hu	Brothers	No suitable candidate has been appointed to the position of president of the Company. The Company has assigned a number of vice presidents to assist in the management of the Company. The Board of Directors includes four independent directors, who constitute half of the Board. Only one of the director is employee or managerial officer, no more than 1 / 2 of the number of directors. Therefore, the Chairman and the President are the same person, which does not affect the operations or decision making of the Company.		
Director	U.S.A. / Taiwan	GWAA LLC Representative: Han-Ping Shieh	Male 61~70	June 20, 2020	3 years	June 10, 2015	5,940,047	1.98	4,158,691	1.92	-	-	-	-	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 Electrical 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	Director of FocalTech Smart Sensors, Ltd.	-	-	-	-	-	-

Title	Nationality or place of registration	Name	Gender Age	Election (Appointment) 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	
Director	U.S.A.	GWAA LLC					5,940,047	1.98	4,158,691	1.92	—	—	—	—		Director of FocalTech Smart Sensors, Ltd.	—	—	—	
	U.S.A.	GWAA LLC Representative: Chenming Hu	Male 71~80	June 20, 2020	3 years	June 20, 2020	—	—	—	—	—	—	—	—	Ph.D. in Electrical Engineering, University of California, Berkeley/ Chairman of Celestry Design Technologies Inc/ CTO of TSMC/ Emeritus Professor, University of California, U.S.A.	Director of Ambarella, Inc. (AMBA)/ Director of ACM Research, Inc (ACMR)/ Adjunct Professor of University of California, Berkeley/ Professor of National Chiao Tung University	Chairman	Genda Hu	Brother	
Independent Director	Taiwan	Chintay Shih	Male 71~80	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 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 of Vanguard International Semiconductor Corporation/ Independent Director of Sercomm Corporation/ Independent Director of Taiwan Powder Technologies Co., Ltd./ Supervisor of TEN Incubation Corporation	—	—	—		
Independent Director	Taiwan	Chan-Jane Lin	Female 61~70	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 71~80	June 20, 2020	3 years	June 20, 2020	—	—	—	—	—	—	—	PhD in Industrial Engineering, Purdue University, USA/ Master of Machinery of New York Institute of Technology/ Weihsan 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 Mirl Co., Ltd./ Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI	—	—	—		
Independent Director	Taiwan	Xuhui Xu	Male 51~60	June 20, 2020	3 years	June 20, 2020	—	—	—	—	—	—	—	Executives Program, Graduate School of Business Administration, NCCU/ Master of Business Administration, Tulane University Business School/ Chairman of Taiwan Air Cargo Contracting Co., Ltd./	Chairman of Taiwan Air Cargo Contracting Co., Ltd./ Director of T3EX Global Holdings Corp./ Supervisor of Central Taiwan Science Park Logistics Co., Ltd./ Supervisor of Worldwide GSA/	—	—	—		

Title	Nationality or place of registration	Name	Gender Age	Election (Appointment) 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	
														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	Independent Director of Sanfar Property Limited Director of Car Quality Automotive Co., Ltd. Independent Director of Chenfull International Co., Ltd.					
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 41-50				-	-	-	-	-	-	-	MBA Master from USC/ Bachelor of Accounting, UC/ Yuanta Investment Senior Vice President/ Director of Taiwan Citi Global Securities	CFO of Egis	-	-	-		
Director	Taiwan	James Liao (note 5)	Male 41-50	June 20, 2020	3 years	June 10, 2015	900,974	0.30	-	-	-	-	-	MBA of NTU/ Financial Manager of MediaTek		-	-	-		

Note 1: The Company approved Re-election of the 7th Directors at the shareholders' regular 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 the person of an equivalent post (the highest-level managerial officer) 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 (e.g., increasing the number of independent directors in addition to having more than half of the directors who are not employed as the Company's employees or managerial officers).

Note 4: Sense Investment and Consulting Inc. transferred its shares on April 19, 2021, which were in excess of one-half of the Company's shares it held at the time of being elected, it, ipso facto, was discharged from the office of director.

Note 5: Director James Liao transferred his shares on September 1, 2021, which were in excess of one-half of the Company's shares he held at the time of being elected, he, ipso facto, was discharged from the office of director.

(1) Major Shareholders of Corporate Shareholders

April 11, 2022

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

2. Disclosure of Professional Qualifications of Directors and Supervisors and Independence of Independent Directors

April 11, 2022

Conditions		Professional qualification and experience	Does not have the circumstances stipulated in Article 30 of the Company Act	Is not a spouse or a relative within the second degree of kinship as stipulated in Article 26-3, paragraphs 3 and 4 of the Securities and Exchange Act	Does not have the following circumstances stipulated in Article 3, paragraph 1, subparagraphs 1 to 8 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies (Note 2)								The amount of remuneration received for services rendered to the Company or its affiliates in the past two years	Number and proportion of shares held in own name, spouse's name, or names of relatives within the second degree of kinship (or names of third party)	Does not have the circumstances stipulated in Article 27 of the Company Act	Number of public companies where the person holds the title as independent director
Name	Principal majors and experience (note 1)				1	2	3	4	5	6	7	8				
Chairman	Genda Hu	<p>【Professional expertise】 Experiences in operation and management of business and leadership decision-making; board of directors leadership; crisis handling and risk management; and semiconductor industry technology and market.</p> <p>【Qualification and work experience】 Ph.D. in Electrical Engineering, Princeton University/ IEEE Fellow / America 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</p>	Yes	No	No	No	No	Yes	No	Yes	Yes	Yes	0	5,753,928 2.66%	Yes	0
Director	GWAA LLC Representative: Han-Ping Shieh	<p>【Professional expertise】 Experiences in display technology and micro-optical systems; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management.</p> <p>【Qualification and work experience】 Ph.D., Department of Electrical and Computer Engineering, Carnegie Mellon University, USA/ Lifetime Chair Professor of National Chiao Tung University/ IEEE/OSA/SID Fellow Former Vice-President of University System of Taiwan / Vice President of National Chiao Tung University/ Dean of College of Electrical and Electrical 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</p>	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	0	0	No	2	
Director	GWAA LLC Representative: Chenming Hu	<p>【Professional expertise】 Experiences in electric engineering and computer science; business operation leadership; leading the board of directors in operating decision-making; crisis handling</p>	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes	Yes	0	0	No	0

		and risk management; and semiconductor industry technology and market. 【Qualification and work experience】 Ph.D. in Electrical Engineering, University of California, Berkeley/ Adjunct Professor of University of California, Berkeley/ Professor of National Chiao Tung University/ Former Chairman of Celestry Design Technologies Inc./ CTO of TSMC/ Emeritus Professor, University of California, U.S.A.																
Independent Director	Chintay Shih	【Professional expertise】 Experiences in electrical engineering and industrial technology; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management. 【Qualification and work experience】 Ph.D. in Electrical Engineering, Princeton University, Former 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 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/	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	Yes	3
Independent Director	Chan-Jane Lin	【Professional expertise】 Convener of the Company's Audit Committee. Expertise in accounting and financial management, operating decision-making management for the board of directors and functional committees, and financial industry, with experiences in computer and peripheral equipment industry and semiconductor related industry, and risk management. Extensive academic and industry experience, and is committed to promoting corporate governance in Taiwan. 【Qualification and work experience】 PhD in Accounting and Master in MBA, University of Maryland/ Bachelor, Accounting Section, Department of Business Administration, National Taiwan University/ Qualification of Senior Professional and Technical Examinations Regulations, R.O.C./ Currently a professor at the Department of Accounting, National Taiwan University/ Convener, Managing Supervisor, Taiwan Corporate Governance Association/ Supervisor of Securities and Futures Investors Protection Center/ Former independent director of Fubon Financial Holdings/ Supervisor of Taiwan Financial Holdings Co., Ltd./ Director of School of Professional Education and Continuing Studies, National Taiwan University Acting Dean and Deputy Dean of School of Management; Director and Dean of Department of Accounting, National Taiwan University/ Assistant Professor, Department of Accounting, George Washington University	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	Yes	1
Independent Director	Chang Xu	【Professional expertise】 Experiences in electrical and industrial engineering technology; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management. 【Qualification and work experience】 PhD in Industrial Engineering, Purdue University, USA/ Former Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI/ Managing Director of Chinese Metrology Society/ Consultant of Center for Measurement Standards, ITRI/ Independent Director of Weihai Industrial Co., Ltd./	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	Yes	0

		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																	
Independent Director	Xuhui Xu	【Professional expertise】 Experiences in operation and management of business and leadership decision-making; board of directors leadership; crisis handling and risk management; and international freight forwarding management and market. 【Qualification and work experience】 Executives Program, Graduate School of Business Administration, NCCU/ Master of Business Administration, Tulane University Business School/ Current 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	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	Yes	2
Director	Sense Investment and Consulting Inc. Representative: George Chang (note 3)	【Professional expertise】 Expertise in financial analysis, financial management, industry economics research, international market insights, with experiences in operating decision-making for the board of directors, and risk management. 【Qualification and work experience】 MBA Master from USC/ Bachelor of Accounting, UC/ Former Senior Vice President of Yuanta Investment Consulting / Director of Taiwan Citi Global Securities	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	No	0
Director	James Liao (note 4)	【Professional expertise】 Expertise in financial accounting, with experiences in operation and management of business, operating decision-making for the board of directors, and risk management. 【Qualification and work experience】 MBA of NTU/ Qualification of Senior Professional and Technical Examinations Regulations, R.O.C./ Former Financial Manager of MediaTek Former CFO of this Company	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	Yes	0

Note 1: Please refer to 2. Profiles of Directors, Supervisors, President, Vice President, Deputy Vice President, Division Heads, and Branch Heads, (1) Directors and Supervisors, 1. Profiles of Directors and Supervisors for more details on the education and personal experience of directors.

Note 2: Whether the directors meet the independence requirements stipulated in Article 3, paragraph 1, subparagraphs 1 to 8 of the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies:

- (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.)

Note 3: Sense Investment and Consulting Inc. transferred its shares on April 19, 2021, which were in excess of one-half of the Company's shares it held at the time of being elected, it, ipso facto, was discharged from the office of director.

Note 4: Director James Liao transferred his shares on September 1, 2021, which were in excess of one-half of the Company's shares he held at the time of being elected, he, ipso facto, was discharged from the office of director.

3. Diversity and independence of the Board of Directors:

- (1) Diversity of the Board of Directors: The Company's diversity policy on the professions of board members is stipulated in the Corporate Governance Best Practice Principles. In the selection process, the Board of Directors consults various talented individuals and evaluates the diversity requirements of basic composition, professional qualifications, and industrial experience before nominating them to the shareholders' meeting for election, in order to enhance the competency of the Board of Directors and achieve the objectives of corporate governance.

The current Board of Directors' basic composition in terms of gender, age, nationality, education and personal experience is detailed in the "Profiles of Directors and Supervisors" list. The current Board of Directors consists of one female, two U.S. nationals, and the rest are with R.O.C. nationality. All of whom are above 50 years old and four of whom are above 70 years old, with expertise in finance and accounting, electrical engineering, semiconductors, in-process quality control, and international transportation, etc. In terms of competency, they are experienced in business operation and management, industry knowledge, international market, operational judgment, and finance and accounting analysis, etc. In the future, the Board will move towards a more diversified composition, including adding more female members as well as members with accounting or legal professional backgrounds.

- (2) Independence of the Board of Directors: Currently, there are three general directors, with one of whom serving as a managerial officer, in addition to four independent directors that account for 44% of the nine elected seats and 57% of the seven current members. Details of independence are listed in the "Independency" column in the table above. All of the independent directors have not served more than three terms, and except that the Chairman, Mr. Genda Hu, and one of the directors, Chenming Hu (representative of GWAA LLC), are relatives within the second degree of kinship, there is no violation of independence requirements under Article 26-3, paragraphs 3 to 4 of the Securities and Exchange Act. In addition, the independent directors are also in compliance with the independence requirements stipulated in Articles 27 and 30 of the Company Act as well as the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies.

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

April 11, 2022; Unit: share; %

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 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	1,140,165	0.53	455,072	0.21	4,158,691	1.92	Ph.D. in Electrical Engineering, Princeton University, IEEE Fellow Has served in 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./ Director, President, CEO of FocalTech Systems (Shenzhen) Co., Ltd./ Director, President of FocalTech Electronics (Shenzhen) Co., Ltd./ Director, President of FocalTech Electronics (Shanghai) Co., Ltd./ 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 vice presidents to assist in the management of the Company. The Board of Directors includes four independent directors, who constitute half of the Board. Only one of the director is employee or managerial officer, no more than 1 / 2 of the number of directors. Therefore, the Chairman and the President are the same person, which does not affect the operations or decision making of the Company.
Senior Vice President	Taiwan	Shih-Hui Cheng	Male	Sep. 8, 2021	31,000	0.01	—	—	—	—	Former President of Intel China Server Platform Development Center and Business Division, Master of Electrical Engineering, Purdue University, USA	None	—	—	—	
Vice President	Taiwan	Jui-Cheng Hsu	Male	Feb. 1, 2021	22,966	0.01	—	—	—	—	Master of Electrical Engineering, National Tsing Hua University/ Manager of Sunplus Technology Co., Ltd./ Deputy Vice President of Sunshine Sports Tech Co., Ltd.	Director of FocalTech Smart Sensors, Ltd.(Designated representative of FocalTech Systems Co., Ltd.) Director of Vitrio Technology Corporation	—	—	—	
Vice President	Mainland China	Ching-Kai Chang	Male	Jan. 5, 2015	—	—	—	—	184,957	0.09	Master of Microelectronics and Solid State Electronics, Peking University	vice president of FocalTech Electronics (Shenzhen) Co., Ltd./	—	—	—	
Vice President	Mainland China	Wei-Ching Hou	Male	Apr. 16, 2015	—	—	—	—	242,770	0.11	Bachelor of Radio Technology, Chongqing University/ Manager of iSolution Technologies Ltd. (Shenzhen)	vice president of FocalTech Electronics (Shenzhen) Co., Ltd./ Chairman and President of Hefei PineTech Electronics Co., Ltd.	—	—	—	
Vice President	Mainland China	Hsiao-Hsu Tu	Male	Apr. 11, 2016	—	—	—	—	276,522	0.13	Master, School of Computer Science & Technology, Huazhong University of Science and Technology/ Deputy Technical Manager of MediaTek Inc. (Shenzhen)	vice president of FocalTech Electronics (Shenzhen) Co., Ltd.	—	—	—	
Vice President	Taiwan	Sung-Tsan Chiang	Male	Oct. 8, 2020	—	—	—	—	—	—	Master of Materials Science and Engineering, National Tsing Hua University/ Deputy Vice President of Socle Technology Corp./ Director of ANPEC Electronics Corporation/ Director of AOS Alpha & Omega Semiconductor, U.S.A	None	—	—	—	
Vice President	Taiwan	Pei-Tzu Wu	Male	Aug. 1, 2018	90,774	0.04	—	—	—	—	Master of Institute of Mining, Metallurgy and Materials Science, National Cheng Kung University/ EMBA of National Chiao Tung University/ Deputy Vice President of ChierTek Inc./ Deputy Vice President of ILITEK/ Senior Manager of TSMC/ vice presidents of Generalplus Technology Inc.	President of Ou Sheng Technology Company/ Director of Pei Feng Management and Consulting Company/ President of Chengxin Care Association/ Consultant of Venture and Innovation Program, National Chiao Tung University/ Director of FocalTech Smart Sensors, Ltd. (Designated representative of GWAA LLC) Director of Vitrio Technology Corporation	—	—	—	

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 share- holding	Number of Shares	Rate of share- holding	Number of Shares	Rate of share- holding			Position	Name	Relation- ship	
												Chairman of FocalTech Smart Sensors Co., Ltd.				
Business Vice President	Mainland China	Ching-Suo Wang	Male	Jan. 5, 2015	—	—	—	—	86,557	0.04	Santa Clara University, EMBA Business Deputy Vice President, China Area, Cypress Semiconductor Corporation	Business Vice President of FocalTech Electronics (Shenzhen) Co., Ltd.	—	—	—	
Business Vice President	Mainland China	Lien-Kuo Wang	Male	Apr. 1, 2017	—	—	—	—	269,613	0.12	Business Administration, International Business School, Peking	Business Vice President of FocalTech Electronics (Shenzhen) Co., Ltd./ Director and vice president of Hefei PineTech Electronics Co., Ltd.	—	—	—	
Business Assistant Vice President	Mainland China	Te-Chih Kung	Male	Mar. 18, 2019	—	—	—	—	125,911	0.06	Beijing Institute of Finance and Commerce Management/ Sales Director of Mobile semi/ Senior Sales Manager, Huabei Area, Chipnuts Technology Inc.	Business Assistant Vice President of FocalTech Systems (Shenzhen) Co., Ltd.	—	—	—	
Senior Deputy Vice President	Taiwan	Ching-Hsing Chang	Male	Feb. 8, 2021	—	—	—	—	—	—	Bachelor of Department of Electronic Engineering, Southern Taiwan University/ Senior Business Manager of Solomon Technology Corporation	None				
Deputy Vice President	Taiwan	Chun-Fu Wang	Male	Sep. 1, 2014	85,209	0.04	12,000	0.01	—	—	Master in Electrical Engineering, National Tsing Hua University/ Senior Director of HannStar® Display Corporation	None	—	—	—	
Deputy Vice President	Taiwan	Po-Sheng Shih	Male	Jan. 16, 2021	12,602	0.01	—	—	—	—	Ph. D. in Electronics Engineering, National Chiao Tung University/ Director of HannStar® Display Corporation/ Director of Innolux Corporation/ vice president of CNTouch Inc.	None	—	—	—	
Deputy Vice President	Taiwan	Cheng-Tao Chuang	Male	Dec. 13, 2017	14,268	0.01	—	—	—	—	Master of Institute of Environmental Engineering, National San Ya-sen University/ Mater, MBA, 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	—	—	—	
Deputy Vice President	Taiwan	Hung-Jen Chien	Male	Sep. 8, 2021	10,502	—	—	—	—	—	Master of Dept. of Electronic and Computer Engineering, National Taiwan University of Science and Technology/ R&D Engineer of Sunplus Technology Co., Ltd./ Manager of Sunshine Sports Tech Co., Ltd.	None				
Deputy Vice President	Taiwan	Chen Kuo	Male	Feb. 14, 2022	—	—	—	—	—	—	Master of Materials Engineering, Auburn University/ Bachelor of Department of Metallurgy & Materials Engineering, National Cheng Kung University/ Director of Wafer Foundry NXP Semiconductors Taiwan Ltd./ Director of Wafer Testing, Micron Technology, Inc./ Director of Wafer Plant 5, Macronix International Co., Ltd.	None	—	—	—	
Vice President, CFO, Spokesperson and Corporate governance officer	Taiwan	Wei-Chieh Chang	Male	Jul. 26, 2021	—	—	—	—	—	—	Master of Business Administration, Baruch College, The City University of New York/ Chief Financial Officer, Good Way Technology Co., Ltd./ Chief Financial Officer, K.H.S. Musical Instrument Co.,Ltd./ Chief Financial Officer of Lite-on IT Crporation/ Financial and Accounting Manager of Tripod Technology Corporation/ Manager, Treasury and Capital Markets Division, The Hongkong and Shanghai Banking Corporation Limited	Supervisor of Vitrio Technology Corporation	—	—	—	
Accountant Officer	Taiwan	Ching-Ting Chiu	Female	Oct. 28, 2021	—	—	—	—	—	—	Bachelor of Accounting, Soochow University/ Leader of Ernst & Young/ Accounting Manager of Spirox Corporation	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 share- holding	Number of Shares	Rate of share- holding	Number of Shares	Rate of share- holding			Position	Name	Relation- ship	
Chief Financial Officer	Taiwan	James Liao (note 4)	Male	Jan. 5, 2015	—	—	—	—	—	—	MBA of NTU/ Financial Manager of MediaTek	None	—	—	—	

Note 1: Information on the president, vice president, deputy vice president, department and branch heads, and anyone whose position is equivalent to that of a president, vice president, or deputy 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

Note 4: James Liao was on a job rotation on August 27, 2021, thus was discharged from the office of director.

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

1. Remuneration to general directors and independent directors

2021; Unit: NT\$ thousand; thousand shares; %

Title	Name	Remuneration to Directors								The sum of A, B, C and D and proportion to net profit after tax		Remuneration to the capacity as employees								The sum of A, B, C, D, E, F and G and 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)		Business execution expenses (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		The Company	All companies mentioned in the financial statements	
Chairman	Genda Hu	—	—	—	—	—	—	60	60	0.00%	0.00%	35,123	36,610	—	—	1,269	—	1,269	—	0.60%	0.62%	None
General Director	James Liao	—	—	—	—	—	—	50	50	0.00%	0.00%	4,434	4,434	72	72	—	—	—	—	0.07%	0.07%	None
General Director	GWAA LLC	960	960	—	—	4,000	4,000	60	60	0.08%	0.08%	—	—	—	—	—	—	—	—	0.08%	0.08%	None
	Designated Representative: Han-Ping Shieh																					
Independent Director	Chintay Shih	960	960	—	—	6,000	6,000	130	130	0.12%	0.12%	—	—	—	—	—	—	—	—	0.12%	0.12%	None
Independent Director	Chan-Jane Lin	960	960	—	—	6,000	6,000	130	130	0.12%	0.12%	—	—	—	—	—	—	—	—	0.12%	0.12%	None
Independent Director	Xuhui Xu	960	960	—	—	5,000	5,000	90	90	0.10%	0.10%	—	—	—	—	—	—	—	—	0.10%	0.10%	None
Independent Director	Chang Xu	960	960	—	—	5,000	5,000	100	100	0.10%	0.10%	—	—	—	—	—	—	—	—	0.10%	0.10%	None
General Director	GWAA LLC	960	960	—	—	4,000	4,000	50	50	0.08%	0.08%	—	—	—	—	—	—	—	—	0.08%	0.08%	None
	Designated representative: Chenming Hu																					
General Director	Sense Investment and Consulting Inc. Designated representative : George Chang	291	291	—	—	—	—	20	20	0.01%	0.01%	—	—	—	—	—	—	—	—	0.01%	0.01%	None

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 non-employee consultants of the parent company/either company listed in the financial statement/invested companies) in the last year: None.

Notes 1 and 2: On February 23, 2022, the Company's Board of Directors approved the distribution of employee compensation and director compensation for 2021 in the amounts of NT\$316,730,000 and NT\$30,000,000, 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 Vice Presidents' Remuneration

2021; 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 and 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	6,478	7,965	-	-	28,705	28,705	1,269	-	1,269	-	0.60%	0.62%	None
Chief Financial Officer	James Liao (note 2)	2,336	2,336	72	72	2,148	2,148	-	-	-	-	0.07%	0.07%	None
Vice President	Pei-Tzu Wu	3,880	3,880	108	108	4,984	4,984	646	-	646	-	0.16%	0.16%	None
Vice President	Jui-Cheng Hsu (note 3)	3,526	3,526	99	99	5,687	5,687	640	-	640	-	0.16%	0.16%	None
Vice President	Sung-Tsan Chiang	2,974	2,974	108	108	5,097	5,097	474	-	474	-	0.14%	0.14%	None
Vice President	Hsiao-Hsu Tu	-	2,954	-	-	-	13,582	-	-	-	-	-	0.27%	None
Vice President	Ching-Kai Chang	-	3,115	-	-	-	14,259	-	-	-	-	-	0.28%	None
Vice President	Wei-Ching Hou	-	3,004	-	-	-	12,820	-	-	-	-	-	0.26%	None
Vice President, CFO, Spokesperson and Corporate governance officer	Wei-Chieh Chang (note 4)	1,398	1,398	47	47	5,571	5,571	-	-	-	-	0.11%	0.11%	None
Senior Vice President	Shih-Hui Cheng (note 5)	2,448	2,448	54	54	2,701	2,701	743	-	743	-	0.10%	0.10%	None

Note 1: On February 23, 2022, the Board of Directors approved the distribution of employee compensation and director compensation for 2021 in the amount of NT\$316,730,000 and NT\$30,000,000, respectively, all in cash.

Note 2: Discharged from the office on August 27, 2021 due to job rotation.

Note 3: Took office on February 1, 2021.

Note 4: Took office on July 26, 2021.

Note 5: Took office on September 8, 2021.

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

2021; 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 and 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	6,478	7,965	-	-	28,705	28,705	1,269	-	1,269	-	0.60%	0.62%	None
Vice President	Ching-Kai Chang	-	3,115	-	-	-	14,259	-	-	-	-	-	0.28%	None
Vice President	Hsiao-Hsu Tu	-	2,954	-	-	-	13,582	-	-	-	-	-	0.27%	None
Vice President	Wei-Ching Hou	-	3,004	-	-	-	12,820	-	-	-	-	-	0.26%	None
Vice President	Jui-Cheng Hsu (note 2)	3,526	3,526	99	99	5,687	5,687	640	-	640	-	0.16%	0.16%	None

Note 1: On February 23, 2022, the Board of Directors approved the distribution of employee compensation for 2021 in the amount of NT\$316,730,000, all in cash.

Note 2: Took office on February 1, 2021.

4. Names of and distribution to managerial officers distributing employee compensation
 On February 23, 2022, the Board of Directors approved the distribution of
 employee compensation for 2021 in the amount of NT\$316,730,000, all in cash.

2021; Unit: NT\$ thousand; %

	Title	Name	Stock	Cash	Total	Proportion of total to net profit after tax (%)
Managerial officers	CEO and President	Genda Hu				
	Senior Vice President	Shih-Hui Cheng				
	Vice President	Ching-Kai Chang				
	Vice President	Wei-Ching Hou				
	Vice President	Hsiao-Hsu Tu				
	Vice President	Jui-Cheng Hsu				
	Vice President	Sung-Tsan Chiang				
	Vice President	Pei-Tzu Wu				
	Business Vice President	Ching-Suo Wang				
	Business Vice President	Lien-Kuo Wang				
	Business Assistant Vice President	Te-Chih Kung	-	6,273	6,273	0.1%
	Deputy Vice President	Chun-Fu Wang				
	Deputy Vice President	Po-Sheng Shih				
	Deputy Vice President	Cheng-Tao Chuang				
	Deputy Vice President	Hung-Jen Chien				
	Deputy Vice President	Ching-Hsing Chang				
Accountant Officer	Ching-Ting Chiu					
Vice President, CFO, Spokesperson and Corporate governance officer	Wei-Chieh Chang					

(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 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 vice presidents:

Item	2021		2020	
	Individual remuneration %	Consolidated remuneration %	Individual remuneration %	Consolidated remuneration %
Director remuneration (Note 1)	1.27%	1.29%	3.50%	3.63%
Supervisor remuneration (Note 2)	—	—	—	—
Presidents/ vice presidents remuneration (Note 3)	1.34%	2.18%	4.41%	6.43%

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/ 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

- (1) The policy and standard for director remuneration distribution are in accordance with the Company's Articles of Incorporation and the Rules for Setting Director Remuneration, and are evaluated by the Remuneration Committee and recommended to the Board of Directors for approval. Director remuneration includes remuneration, business execution expenses and compensation, of which the total amount of compensation is distributed based on the Articles of Incorporation and is related to the operating profit. The individual compensation of directors is adjusted and positively correlated with the results of their performance evaluations, including the attendance rate for the "Participation in Company Operations" and the number of training hours required for "Election and Continuing Education of Directors".
- (2) The evaluation system and the amount of managerial officer remuneration are formulated, evaluated and approved by the Remuneration Committee. In addition to industry standards, the criteria also take into consideration both the short-term and long-term indicators. The short-term indicator evaluates the achievement rate of profitability target, whereas the long-term indicator evaluates the establishment of long-term development capability, such as (1) new product and technology development results, (2) team building, and (3) corporate strategy and corporate governance performance. These indicators are evaluated by the Remuneration Committee and submitted to the Board of Directors for approval.

- (3) The business performance objectives and risk management are combined; when formulating strategies, layouts and budgets each year, the Company takes into account the short-, medium- and long-term risks. All of these are tracked, treated with countermeasures and adjusted every year. Apart from that, the short-term business performance, which reflects the results of various risk management and countermeasures, are also included in the evaluation of the Remuneration Committee.

3. Implementation of Corporate Governance

(1) The function of the Board

A total of 5 (A) board meetings were held in the past year. Director attendance is as follows:

2021

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (B/A)(%)	Remarks
Chairman	Genda Hu	5	0	100%	Re-election Date re-elected: June 20, 2020
Director	GWAA LLC Designated Representative: Han-Ping Shieh	5	0	100%	
Director	GWAA LLC Designated representative: Chenming Hu	5	0	100%	Date newly assumed: June 20, 2020
Independent Director	Chintay Shih	5	0	100%	Re-election Date re-elected: June 20, 2020
Independent Director	Chan-Jane Lin	5	0	100%	
Independent Director	Chang Xu	5	0	100%	Date newly assumed: June 20, 2020
Independent Director	Xuhui Xu	5	0	100%	
Director	Sense Investment and Consulting Inc. Designated representative: George Chang	2	0	100%	Date discharged: April 19, 2021
Director	James Liao	4	0	100%	Date discharged: September 1, 2021
Other matters to be noted:					
1. 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:					
(1) 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).					
(2) 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					
2. Situations where the directors have personal interest conflicts to the proposal and are required to recuse themselves: Chairman recused themselves from participating in the discussion and voting on their remuneration, bonuses, transfer of treasury stock.					

3. Implementation status of Evaluation of the Board of Directors: Refer to table (1)-1 for details.
4. The objective for fortifying the function of the Board in the current period and the most recent period and the evaluation of the state of accomplishment:
 - (1) Completed the external performance evaluation of the Board of Directors in 2021.
 - (2) Regular risk assessment management has been implemented since 2018 and has been explicitly specified as Risk Management Policy Procedures since 2021 with the approval of the Board of Directors.
 - (3) Completed the first edition of FocalTech's Corporate Responsibility (CSR) Report.

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

Evaluation Cycle	Evaluation Period	Evaluation Scope	Evaluation Method	Evaluation items
Annually	Jan. 1, 2021~ Dec. 31, 2021	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 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</p>

				election of its members; and internal controls.
Every three years	Apr. 1, 2020 ~ Mar. 31, 2021	Board of Directors	Appointed Taiwan Corporate Governance Association for an evaluation	(1) Composition of the Board of Directors (2) Guidance of the Board of Directors (3) Authorization of the Board of Directors (4) Supervision of the Board of Directors (5) Communication of the Board of Directors (6) Internal control and risk management (7) Self-discipline of the Board of Directors (8) Other matters such as board meetings and support systems

(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:

2021

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (%) (B/A)(Note)	Remarks
Independent Director	Chintay Shih	4	0	100%	Re-election Date of Re-election: June 20, 2020
Independent Director	Chan-Jane Lin	4	0	100%	
Independent Director	Chang Xu	4	0	100%	Date newly assumed: June 20, 2020
Independent Director	Xuhui Xu	4	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, specify the Audit Committee meeting date, the session, the content of the motions, the content of the dissenting or qualified opinion, or material recommendations made by independent directors, the resolutions of the Audit Committee and how the Company handled the opinions of 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 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.		
The 7th Board Meeting of the 7th Term Apr. 28, 2021	1. The Company's endorsement and guarantee of wafer procurement for its subsidiaries.	V	
	2. The acquisition of property - office buildings.	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 8th Board Meeting of the 7th Term July 29, 2021	1. 2021 Q2 Financial Statement.	V	
	2. 2021 Audit Fee.	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 9th Board Meeting of the 7th Term Oct. 28, 2021	1. Appointment of the Chief Financial Officer and Financial Officer of the Company.	V	
	2. Appointment of Accounting Officer of the Company.	V	
	3. The Company's endorsement and guarantee of wafer increase 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 10th Board Meeting of the 7th Term Feb. 23, 2022	1. 2021 Financial Statement.	V	
	2. Fund lending between subsidiaries.	V	
	3. Evaluation of CPAs' reappointment and independence.	V	
	4. 2021 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

3. 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

4. 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 Company's Chief Internal Auditor liaises with the Audit Committee members on the audit findings regularly, presents audit reports in the quarterly meeting of the Audit Committee, and communicates with the Audit Committee members individually every time at the end of the debate on the motions after the management team has left. In case of special situation, the Chief Internal Auditor reports to the Audit Committee members.

Date of meeting	Communication item	Opinion of independent director
Feb. 4, 2021	1. Report on 2020 Q4 internal control deficiencies	Agree and no objection
	2. Report on 2020 Statement of Internal Control	Agree and no objection
Apr. 28, 2021	Report on 2021 Q1 internal control deficiencies	Agree and no objection
July 29, 2021	Report on 2021 Q2 internal control deficiencies	Agree and no objection
Oct. 28, 2021	1. Report on 2021 Q3 internal control deficiencies	It is suggested to appoint an external professional company to perform the information security checks, and the Audit Committee has arranged it as instructed.
	2. 2022 Audit Plan	

- (2) CPAs attend the Audit Committee meeting on a quarterly basis (representatives assigned on July 29, 2021) to report on auditing status and legally-mandated matters of note. Audit Committee members liaise with the CPAs at any time when they have any questions about financial and business conditions, and communicate with the CPAs individually every time at the end of the debate on the motions after the management team has left.

Date of meeting	Communication item	Opinion of independent director
Feb. 4, 2021	Risk and internal control audit report	Agree and no objection
Apr. 28, 2021	Financial statement related issues	Agree and no objection
July 29, 2021	Financial statement related issues	Agree and no objection
Oct. 28, 2021	Report on audit scope and method	Agree and no objection
	Report on the comparison between expected and actual operation of products	
	Report on significant risks and key audit matters	

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

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No		
1. Has the Company established and disclosed its corporate governance practices based on the Corporate Governance Best-Practice Principles for TWSE/TPEX 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.	
(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.	None
(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 Internet Material Information Disclosure and Prevention of Insider Trading, in accordance with the competent authorities' relevant regulations, and has been raising the awareness of and reminding internal personnel by sending emails every year.	

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No		
<p>3. Composition and Responsibilities of the Board of Directors</p> <p>(1) Has the Board established a diversity policy, specific management goals and implemented it accordingly?</p>	✓		<p>(1) The Company's diversity policy is set forth in Article 20 of the Corporate Governance Best Practice Principles, and the diversity status of directors is evaluated at the time of election. In order to achieve the ideal goals of corporate governance, the Board of Directors as a whole should have the following competencies:</p> <p>(1) Ability to make operational judgments.</p> <p>(2) Ability to perform accounting and financial analysis.</p> <p>(3) Ability to conduct management administration.</p> <p>(4) Ability to conduct crisis management.</p> <p>(5) Knowledge of the industry.</p> <p>(6) An international market perspective.</p> <p>(7) Ability to lead.</p> <p>(8) Ability to make policy decisions.</p> <p>Current diversified composition of directors:</p> <p>1. The Board is composed of members with industrial and academic backgrounds. Three of the members are from the Ph. D. in Department of Electrical Engineering, Princeton University; Ph.D. in Electrical Engineering, University of California; Ph.D. in Department of Electrical and Computer Engineering, Carnegie Mellon University.</p> <p>2. The independent directors possess professional backgrounds, skills, and industry experience. Two of the directors are from the Ph.D. in Department of Electrical Engineering, Princeton University, and Ph.D. in School of Industrial Engineering, Purdue University, respectively. The other two directors are from the Ph.D. in Accounting program at the University of Maryland, and the Master of Business Administration program at Freeman School of Business, Tulane University.</p> <p>3. The diversity policy of the Board of Directors is summarized below and is disclosed on the Company's website:</p>	None

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons																																																																								
	Yes	No																																																																										
(2) Further to the establishment of the Remuneration Committee and the Auditing Committee, has the Company voluntarily established other functional committees?	✓		<table border="1"> <thead> <tr> <th>Core for diversification</th> <th>Gender</th> <th>Business management</th> <th>Leadership and Decision-making</th> <th>Industrial knowledge</th> <th>International market view</th> <th>Crisis management</th> <th>Financial Accounting</th> </tr> </thead> <tbody> <tr> <td>Name of Director</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Genda Hu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Designated Representative of GWAALLC: Han-Ping Shieh</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Designated representative of GWAALLC: Chenming Hu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Chintay Shih</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Chan-Jane Lin</td> <td>Female</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> </tr> <tr> <td>Chang Xu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> <tr> <td>Xuhui Xu</td> <td>Male</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td>v</td> <td></td> </tr> </tbody> </table> <p>4. The Company plans to bring in more diverse to the seats such as female members, as well as members who have expertise in law, finance and accounting in the future.</p>	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		Designated Representative of GWAALLC: Han-Ping Shieh	Male	v	v	v	v	v		Designated representative of GWAALLC: Chenming Hu	Male	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		No other functional committees have currently been established
Core for diversification	Gender	Business management	Leadership and Decision-making	Industrial knowledge	International market view	Crisis management	Financial Accounting																																																																					
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Xuhui Xu	Male	v	v	v	v	v																																																																						
(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?	✓		<p>(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 2021 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.</p> <p>The results of the performance evaluations from the attendance rate for the "Participation in Company Operations" and the number of training hours required for "Election and Continuing Education of Directors" are</p>	None																																																																								

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons															
	Yes	No																	
(4) Has the Company evaluated the independence of the commissioned certified public accountants regularly?	✓		<p>positively correlated with director compensation. In 2021, the Company's Board of Directors was also evaluated by an external organization (Taiwan Corporate Governance Association).</p> <p>(1) 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 23, 2022. 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 & 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> </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	None
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																	

Items for evaluation	Implementation Status			Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons	
	Yes	No				
				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. The quality and timeliness of audit and tax services do not meet the requirements.	No	Yes
				10. The Company has been subject to litigation or correction by the competent authorities for financial reporting in the year under review.	No	Yes
				11. The accounting firm's size and reputation were significantly damaged in the year under review.	No	Yes
				12. Poor interaction between the CPA, management level, governance units, and the Chief Internal Auditor.	No	Yes

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No		
4. Does the TWSE/TPEX 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 appointed a Corporate Governance Senior Office with the approval of the Board of Directors, and Mr. Wei-chieh Chang, who is also the Company's CFO, was appointed on October 28, 2021. He meets the eligibility criteria of the Corporation Operation Directions for Compliance with the Establishment of Board of Directors by TWSE/TPEX Listed Companies and the Board's Exercise of Powers in that he has more than three years of relevant work experience; and serves as the convener of the Corporate Governance Group (which was renamed the Sustainable Development Group by the Board of Directors on February 23, 2022) to assist directors and independent directors in complying with laws and regulations. This group consists of the Board of Directors' Secretary; Finance and Accounting Department; Auditing Department; Legal Affairs Department; and Investor Relations Department. All of these personnel have at least three years of experience in the management works 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"> 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. 2. Implementing, coordinating, and planning ethical corporate policy promotion and relevant trainings, to ensure the effectiveness of implementation. 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. 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. 	None

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>5. Conducting board meetings and shareholders' meetings in accordance with the Corporate Governance Best Practice Principles and corporate governance regulations.</p> <p>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.</p> <p>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.</p> <p>(2) Currently, the Corporate Governance Senior Office has only served the Company for less than a year, thus the number of hours for continuing education has not yet been reported.</p> <p>(3) On February 23, 2022, the Board of Directors reported on the implementation status of the 2021 Sustainable Development Plan and the implementation plan for 2022.</p>	

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
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 & 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 established a website for the disclosure of Company's financial and business, and corporate governance?	✓		(1) The Company has established a website (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.	None
(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	✓		(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.	None

Items for evaluation	Implementation Status		Summary	Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No		
<p>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>(3) The Annual Financial Report 2020 was announced within three months after March 30, 2021. Financial reports for the first, second, and third quarters of 2021, as well as monthly operating conditions, were all announced and reported within the statutory period.</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 of liability insurance for directors and supervisors by the Company)?</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 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 managerial officers, and is disclosed on the Market Observation Post System (MOPS).</p>	None
<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:</p>				

Items for evaluation	Implementation Status			Deviation from the Corporate Governance Best-Practice Principles for the TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
a. The first edition of 2020 CSR report of the Company was completed and was verified by a third party. b. Risk management policy and procedures were approved by the Company's Board of Directors on July 29, 2021. c. The Board of Directors and functional committees were evaluated on May 7, 2021 by an external professional organization appointed by the Company. (2) Future enhancements: The presentation of CSR report was optimized to additionally disclose its compliance with the TCFD and SASB.				

Further Studying Status of Directors in 2021:

Title	Name	Date of Advanced study	Organized by	Course Name	Number of Hours
Director	Genda Hu	Nov. 9, 2021	Securities & Futures Institute	Examining Corporate Governance from the Perspective of Inspection and Investigation 3.0	3
		Nov. 15, 2021	Securities & Futures Institute	Sharing on Corporate Mergers and Acquisitions Practice – Based on Hostile Mergers and Acquisitions	3
Corporate Director Representative	Han-Ping Shieh	July 16, 2021	Securities & Futures Institute	Analysis and Case Studies of Director-Supervisor Related Party Transactions	3
		July 16, 2021	Securities & Futures Institute	Climate Change Mitigation and Adaptation to Promote Sustainable Competitiveness	3
Corporate Director Representative	Chenming Hu	Nov. 12, 2021	Taiwan Corporate Governance Association	Crisis Management Strategies on Corporate Operation and Public Opinion Reports	3
		Dec. 24, 2021	Taiwan Corporate Governance Association	Case Studies on Fraudulent Corporate Financial Statement	3
Independent Director	Chan-Jane Lin	May 7, 2021	Taiwan Corporate Governance Association	Sharing on Advanced Audit Committee Practices – Merger and Acquisition Review and Director Responsibility	3
		Sep. 16, 2021	Taiwan Corporate Governance Association	Case Analysis of Hostile Mergers and Acquisitions, and Contests for Corporate Control, and Countermeasures for Companies	3
Independent Director	Chintay Shih	Oct. 19, 2021	Taiwan Corporate Governance Association	Trends and Challenges in Information Security Governance (I)	3
		Oct. 19, 2021	Taiwan Corporate Governance Association	Trends and Challenges in Information Security Governance (II)	3

Title	Name	Date of Advanced study	Organized by	Course Name	Number of Hours
		Sep. 6, 2021	Accounting Research and Development Foundation	Analyzing the Positive Impact of ESG on Enterprises and Creating a New Low-carbon Green Value Model	3
Independent Director	Chang Xu	Oct. 8, 2021	Taiwan Corporate Governance Association	Board of Directors' Response to and Application of Corporate Governance Evaluation	3
		Sep. 1, 2021	Financial Supervisory Commission	13th Taipei Corporate Governance Forum – Afternoon Session	3
Independent Director	Xuhui Xu	Sep. 1, 2021	Financial Supervisory Commission	13th Taipei Corporate Governance Forum – Morning Session	3
		Sep. 1, 2021	Financial Supervisory Commission	13th Taipei Corporate Governance Forum – Afternoon Session	3

(4) The operation of the Remuneration Committee

1. Information on the members of the Remuneration Committee

	Conditions	Professional qualification and experience		Independency								Number and proportion of shares held in own name, spouse's name, or names of relatives within the second degree of kinship (or names of third party)	Number of public companies where the members of the Remuneration Committee are also the members of the remuneration committees of these companies	
		Years of service in the company	Principal majors and experience (note 1)	Does not have the circumstances stipulated in Article 6, paragraph 1, items 1 to 8 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange (Note 2)										
By identity	Name			1	2	3	4	5	6	7	8			
Independent Director (Convener)	Chintay Shih	7	<p>【Professional expertise】 Experiences in electrical engineering and industrial technology; operating decision-making for the board of directors and functional committees; semiconductor-related industry and academia; and risk management.</p> <p>【Qualification and work experience】 Ph.D. in Electrical Engineering, Princeton University, Former 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 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/</p>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	3
Independent Director	Chan-Jane Lin	7	<p>【Professional expertise】 Convener of the Company's Audit Committee. Expertise in accounting and financial management, operating decision-making management for the board of directors and functional committees, and financial industry, with experiences in computer and peripheral equipment industry and semiconductor related industry, and risk management. Extensive academic and industry experience, and is committed to promoting corporate governance in Taiwan.</p>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	0

			<p>【Qualification and work experience】 PhD in Accounting and Master in MBA, University of Maryland/ Bachelor, Accounting Section, Department of Business Administration, National Taiwan University/ Qualification of Senior Professional and Technical Examinations Regulations, R.O.C./ Currently a professor at the Department of Accounting, National Taiwan University/ Convenor, Managing Supervisor, Taiwan Corporate Governance Association/ Supervisor of Securities and Futures Investors Protection Center/ Former independent director of Fubon Financial Holdings/ Supervisor of Taiwan Financial Holdings Co., Ltd./ Director of School of Professional Education and Continuing Studies, National Taiwan University Acting Dean and Deputy Dean of School of Management; Director and Dean of Department of Accounting, National Taiwan University/ Assistant Professor, Department of Accounting, George Washington University</p>																
Independent member	Chun-Hao Lai	1	<p>【Professional expertise】 Experiences in operation and management of business and leadership decision-making; board of directors leadership; crisis handling and risk management; and semiconductor industry technology and market.</p> <p>【Qualification and work experience】 Master of Electrical Engineering, University of California, Santa Barbara/ Graduated from Department of Electrical Engineering, National Taiwan University/ Current Consultant of Global Unichip Corp./ Independent Director of Truelight Corporation/ Independent Director of Silicon Optronics, Inc./ Independent Director of Andes Technology Corporation/ Consultant of DIGITIMES/ Director of GIGA SOLUTION TECH. CO., LTD./ Director of Wolley, Inc.(CA Inc.)/ Former co-founder of ASICtronic Solutions (San Jose, CA)/ Manager of ASIC Business Unit / Director of Design Service Division of TSMC North America/ Director of New Customer Business Division of TSMC North America / President of Global Unichip Corp./</p>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	0	0	3				

Note 1: Please refer to 2. Profiles of Directors, Supervisors, President, Vice President, Deputy Vice President, Division Heads, and Branch Heads, (1) Directors and Supervisors, 1. Profiles of Directors and Supervisors for more details on the education and personal experience of Independent directors.

Note 2: The independency is described in accordance with Article 6, paragraph 1, subparagraph 1 to 8 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange:

- (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 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.)

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 3 (A) Remuneration Committee meetings were held in the past year. The qualifications of the committee members and the attendance are as follows:

2021

Title	Name	Actual number of attendance (B)	Attend through proxy	Attendance rate (B/A) (%)	Remarks
Convener	Chintay Shih	3	0	100%	Re-election
Committee	Chan-Jane Lin	3	0	100%	Date re-elected: Aug. 7, 2020
Committee	Chun-Hao Lai	3	0	100%	Date newly assumed: Aug. 7, 2020

Other matters to be noted:

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
1 st session of 5 th term of the Board Feb. 4, 2021	2020 distribution of employee compensation and director compensation.
	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.
2 nd session of 5 th term of the Board Apr. 7, 2021	1. Evaluation of 2020 Manager Remuneration
	2. 2021 Manager Remuneration system
	3. Operation procedures for employees to subscribe to treasury stock
	4. List of employees subscribing to treasury stock
	5. List of employees subscribing restricted stock
	6. Amendments to some provisions of the Rules for Setting Director Remuneration.
	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.
3 rd session of 5 th term of the Board July 29, 2021	Revision of 2021 annual remuneration adjustment for managerial officers due to budget amendment.
	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) Member information and operation of the nomination committee: None

(6) Implementation status of the promotion of sustainable development, any variance from the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for such variance

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
1. Has the Company established a governance framework to advocate sustainable development and set up a dedicated (part-time) unit, which is headed by a senior management at the authorization of the Board and is supervised by the Board, to advocate sustainable development?	✓		<p>1. On April 24, 2018, the Company established the Corporate Governance Group with the approval of the Board of Directors. On February 23, 2022, the Board of Directors renamed the Corporate Governance Group as the Sustainable Development Group, which falls under the purview of the Board of Directors. The Corporate Governance Senior Office (who is also the Company's CFO) serves as the convener of the Sustainable Development Group and is responsible for the advocacy and implementation of all corporate social responsibility related activities.</p> <p>2. Sustainable Development Group performs its duties based on the annual work plan reported to the Board of Directors, and reports the results of the plan implementation to the Board of Directors every year. Different units, including finance and accounting, center for quality management, production and manufacturing, human resources and administration, audit office, are called upon based on the respective work program to discuss and complete the work.</p> <p>3. The 2021 annual plan, which includes the completion of the first edition of the CSR report, the completion of the risk assessment policy and procedures, the arrangement of the business secret promotion and education course, and the completion of the external performance evaluation of the Board of Directors, was successfully completed and reported to the Board of Directors on February 23, 2022.</p> <p>4. The Board of Directors reviews the development direction and objective appropriateness based on the annual plan reported by the Sustainable Development Group, and provides advice and guidance accordingly.</p>	None
2. Does the Company conduct risk assessment on environmental, social and corporate governance issues related to the Company's operations, and has the Company established the relevant risk management policies or strategies based on the materiality principle?	✓		<p>1. The Company has implemented risk assessment every year and reported to the Board of Directors since 2018; the Risk Management Policy and Procedures was established on July 29, 2021 with the approval of the Board of Directors.</p> <p>2. The Risk Management Group gathers representatives from functional units each year to evaluate and make preliminary screening based on the magnitude of risk factors affecting the Company directly or indirectly. Subsequently, the group judges and selects the major risks, compiles and analyzes the statistical results and reports them to the operation and management meeting. Then, the risk-related responsible unit reports on the countermeasures and submits them to the operation and management meeting for discussion and approval. Finally, the results are reported to the Board of Directors by the Chairman's Office.</p> <p>3. The risk assessment covers all companies in the Group, mainly for those in Taiwan and Mainland China. Risk assessment factors include social, environmental and</p>	None

Items for advocacy	Operation Status (Note 1)		Summary	Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No		
			<p>corporate governance issues, such as talents, capital, products, markets, politics and economics.</p> <p>4. Risk Management Group completed the 2022 annual risk assessment on October 28, 2021 and reported the results and countermeasures to the Board of Directors. The main contents are as follows:</p> <p>(1) Social Concern: Employee Safety Risks</p> <p>As an IC design company with no manufacturing plants but mainly offices, the Company operates without major occupational safety issues. Furthermore, the Company pays attention to the physical and mental health of employees. In addition to regular fire prevention inspections/fire drills, workplace inspections, and other hardware safety checks, the Company also holds various activities and health examinations every year to ensure the physical and mental health of employees.</p> <p>(2) Environmental Sustainability: The Impact of Corporate Transformation</p> <p>The Company requires suppliers to comply with RoHS and REACH regulations so as to fulfill their social responsibility for environmental protection. New suppliers are required to conduct annual audits and reviews to meet the requirements of quality, cost, delivery, and CSR. The audit items include: quality system, environmental screening standards (including green product management and ISO 14001 Environmental Safety and Health Management System Verification), and social screening standards (ISO 45001 Occupational Safety and Health Management System verification). These criteria are included in the annual evaluation of suppliers. Those who fail to meet these requirements are provided with guidance for improvement.</p> <p>(3) Corporate Governance: Risks of Talent and Insufficient Supply Chain Production Capacity</p> <p>The Company has recruited and nurtured outstanding talents with more competitive salary structure, welfare measures, and talent training. In the face of constant shortage of suppliers' production capacity, the Company has signed some long-term orders to ensure the supply of specific products and reduce the impact caused by the risk factor.</p> <p>(4) Other risk assessment:</p> <p>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</p>	

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			7. Review and Analysis of Financial Conditions, Performance, and Risk Matters of this annual report for details.	
3. Environmental Issues (1) Has the Company established an appropriate environmental management system in accordance with its industrial characteristics?	✓		<p>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, and has been granted the ISO 14001 International Certification.</p> <p>The external suppliers are selected from those who have been granted the ISO 14001 International Certification, who have environmental responsibility. By complying with the environmental regulations of RoHS/REACH, these suppliers reduce pollutant emissions, establish proper disposal methods for waste materials, thereby providing customers with products that are free of toxic substances.</p>	None
(2) Has the Company made effort to enhance the efficient use of energy and used regenerated materials that have a low impact on the environment?	✓		<p>As an IC design company with no manufacturing plants, the Company's business operations have low impact on the environment. Every year, the Company formulates energy conservation solutions so as to save energy and reduce carbon emissions.</p> <ol style="list-style-type: none"> 1. Complete cleaning the HVAC ducts in the Company's building regularly every year to improve air-conditioning energy efficiency. 2. Arranged centralized offices for plant planners to enhance energy efficiency. 3. Completed all regular environmental monitoring and awareness-raising activities. 4. In 2021, the Company planned to adjust the temperature control method of the server room, which saved more than 10% of electricity consumption compared to the previous year. 	None

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons																
	Yes	No	Summary																	
(3) Has the Company assessed the potential current and future risks and opportunities from climate change for the Company, and has the Company taken countermeasures to address the issues?	✓		<p>Every year, the Company's Risk Management Group gathers the relevant units to evaluate the risk factors and countermeasures in accordance with the Risk Management Policy and Procedures. These items include the risks and opportunities brought by climate change and their countermeasures:</p> <table border="1"> <thead> <tr> <th>Risks</th> <th>Opportunities</th> <th>Countermeasures</th> </tr> </thead> <tbody> <tr> <td>Unstable supply of electricity and water</td> <td rowspan="2">Save electricity and water consumption will reduce the cost as well as the impact of instability.</td> <td rowspan="2"> 1. Regularly perform greenhouse gas inventory, and formulate solutions for energy conservation and carbon reduction, and greenhouse gas reduction. 2. Continuously promote digital signing procedures to reduce paper consumption. </td> </tr> <tr> <td>Increased cost of electricity and water for business operations due to the rising temperatures</td> </tr> <tr> <td>The Company's business transformation risk in response to climate change, international trends and legal requirements.</td> <td>Develop ICs with a smaller size and lower power consumption.</td> <td> Successfully developed IDC; the originally two individual ICs for touch and display are integrated into one IC to reduce the manufacturing process, materials consumed, manpower and other costs for panel plant customers. In 2021, FocalTech's IDC held a 21% market share in the mobile phone industry. Successfully developed fingerprint sensor products that, on average, consume 92% less power in standby mode and 6% less power in scanning mode compared to the industry. </td> </tr> </tbody> </table>	Risks	Opportunities	Countermeasures	Unstable supply of electricity and water	Save electricity and water consumption will reduce the cost as well as the impact of instability.	1. Regularly perform greenhouse gas inventory, and formulate solutions for energy conservation and carbon reduction, and greenhouse gas reduction. 2. Continuously promote digital signing procedures to reduce paper consumption.	Increased cost of electricity and water for business operations due to the rising temperatures	The Company's business transformation risk in response to climate change, international trends and legal requirements.	Develop ICs with a smaller size and lower power consumption.	Successfully developed IDC; the originally two individual ICs for touch and display are integrated into one IC to reduce the manufacturing process, materials consumed, manpower and other costs for panel plant customers. In 2021, FocalTech's IDC held a 21% market share in the mobile phone industry. Successfully developed fingerprint sensor products that, on average, consume 92% less power in standby mode and 6% less power in scanning mode compared to the industry.	None						
Risks	Opportunities	Countermeasures																		
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(4) Has the Company compiled statistics on greenhouse gas emissions, water consumption, and total volume of waste materials for the past two years, and has the Company formulated	✓		<p>The Company's statistics on greenhouse gas emissions, water consumption, and total volume of waste materials over the past two years are as follows (Taiwan and Mainland China areas):</p> <table border="1"> <thead> <tr> <th rowspan="2">Statistical Item</th> <th rowspan="2">Unit</th> <th colspan="2">2020</th> <th colspan="2">2021</th> </tr> <tr> <th>Total Volume</th> <th>Per-capita Usage</th> <th>Total Volume</th> <th>Per-capita Usage</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	Statistical Item	Unit	2020		2021		Total Volume	Per-capita Usage	Total Volume	Per-capita Usage							None
Statistical Item	Unit	2020				2021														
		Total Volume	Per-capita Usage	Total Volume	Per-capita Usage															

Items for advocacy	Operation Status (Note 1)						Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons		
	Yes	No	Summary						
policies for greenhouse gas reduction, water use reduction, and other waste management?			Scope 2 - Greenhouse Gas Emissions	Metric Tons of CO2e	1,720.5	2.2	1,670.6	1.98	
			Water Consumption	Cubic Meter	11,459.0	14.6	12,374.9	14.64	
			Waste Output	Metric Tons	1.5	0.00195	1.6	0.00186	
			<p>The Company is not a manufacturing company; thus, it does not fall under Scopes 1 and 3 emissions.</p> <p>The Company's primary energy consumption is used for electricity. The policies on energy conservation and carbon reduction, greenhouse gas reduction, and water use reduction formulated by the Company are as follows:</p> <ol style="list-style-type: none"> 1. Formulate 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. 2. Adjusted the temperature control method of the server rooms in 2021, which saved more than 10% of electricity used for server rooms compared to the previous year. Such measure indirectly reduced carbon emissions. 3. Integrate office areas and formulate energy conservation and carbon reduction targets, resulting in 10% reduction of carbon emissions per capita compared to 2020. 4. Formulate a water conservation management plan to enhance water resource efficiency, including raising employees' awareness for water conservation, continuing to adjust 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. 						
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?	✓		<p>The Company has established a Code of Human Rights with reference to the core terms of the International Labor Organization (ILO) and the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, which is disclosed on the Company's website. The Company complies with labor-related laws and regulations, incorporates them in the relevant work rules and systems to protect employees' rights and benefits, and introduces them to during the new employee training course.</p>						None

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
(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?	✓		<p>Employee compensation:</p> <p>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. Apart from allocating more than 1% of the Company’s profits to employees in accordance with the Articles of Incorporation, the Company also grants employees various types of bonuses and pay raises based on their rank, years of service, and contributions.</p> <p>Diversity and equality:</p> <p>The Company is an IC design technology company, thus most of the employees are with a background in science, both industry and academia. The Company has more male employees than woman employees, with women taking up 17% of the employees, and accounting for 10% of supervisors. Nevertheless, all employees receive equal pay for equal work and have fair and equal opportunities for promotion and compensation assessment, regardless of their gender and age. (Note: Taiwan area)</p> <p>Operational performance reflected in employee compensation:</p> <p>The “Employee Benefits (Salary) Information Disclosed in the Notes to the Financial Statements” is disclosed on the Market Observation Post System (MOPS), and it indicates that the employee compensation is highly correlated to the Company’s operational performance. The Company’s earnings per share increased from NT\$3.97 in 2020 to NT\$30.23 in 2021, and the average salary of full-time employees who are not in supervisory positions increased by 33%.</p>	None
(3) Has the Company provided a safe and healthy work environment for employees, and provided education on labor safety and health regularly?	✓		<ol style="list-style-type: none"> 1. As an IC design company, the Company’s work environment is based on office areas. In addition, 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 examinations that are better than those required by law. Other than that, the Company has established a dedicated team and personnel in accordance with the law to manage environmental safety and health management related matters. 2. The Company has achieved the ISO 45001 Certification – an international standard for environmental and occupational health and safety management. 3. Adjusted the frequency of pandemic prevention measures according to the pandemic situation in 2021; disinfected the 	None

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			<p>office floors at least every day and prohibited dining together in the cafeteria during the pandemic, and disinfected common areas and spaces such as door handles and meeting rooms at least twice a day at the peak of the pandemic (Level 3 Epidemic Alert).</p> <p>4. Environmental safety operations:</p> <ol style="list-style-type: none"> (1) Perform operational environment monitoring semi-annually. (2) Complete fire safety and prevention, and awareness-raising course in the second half of the year. (3) Perform emergency evacuation drills annually. (4) Perform fire safety equipment inspection and repair annually. (5) Regularly perform safety inspections of building fire safety and evacuation facilities and equipment every two years. <p>5. The number of occupational accidents (excluding traffic accidents) of the employees of the Company, including its subsidiaries, for 2021 was 0.</p>	
(4) Has the Company established the training program for the effective planning of career development for employees?	✓		<p>1. The Company provides a variety of educational 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, in order to formulate their future career plans.</p> <p>2. In 2021, the Company, including its subsidiaries, provides training courses based on four main categories for employees: (Note: Statistics include parent and subsidiary companies in Taiwan and Mainland China)</p> <ol style="list-style-type: none"> (1) Business Operation and Management: These courses targeted at mid- and senior-level management, and aimed to cultivate both of participants' organizational and executive abilities. A total of 24 sessions were held throughout the year, with altogether 417 participants. (2) Professional Training: These courses targeted at the R&D, marketing, and production and manufacturing staffs whose positions are related to product research and development, design and manufacturing. These training courses are planned according to the professional knowledge and skills of each unit, and are divided into professional skills and common abilities categories to enhance employees' competitiveness in the workplace. A total of 88 	None

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			<p>sessions were held throughout the year, with altogether 927 participants.</p> <p>(3) General Education Course: These courses targeted at all employees of the Company, which include business secrets education, information security education, Personal Data Protection Act, industrial safety and environmental protection training, and fire safety drills. A total of 20 sessions were held throughout the year, with altogether 312 participants.</p> <p>(4) New Employee Training: The course targeted at new employees of the year, and is the required course for employee onboarding. The course includes the introduction to corporate culture, corporate products, integrity management, and personnel system. A total of 190 participants attended the course throughout the year.</p> <p>3. Refer to (2) Education and training of employees within 5. Labor Relations in this annual report for details on the number of participants, hours and expenses of training courses throughout the year.</p>	
(5) Does the Company comply with laws, regulations, and international standards when handling issues such as customer health and safety, customer privacy, and marketing and labeling of products and services? Has the Company established a policy and complaint procedure to protect consumer and customer rights and interests?	✓		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 via computer information security & 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. The Company's products are marketed and labeled in accordance with the relevant laws and regulations, as well as international standards (ISO 9001, ISO 14001, ISO 45001).	None
(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?	✓		1. The Company has established various 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; the Management Regulations for Hazardous Substances to the Environment, and QSA and QPA questionnaires and on-site examinations. All of these regulations help the Company to ascertain the supplier's compliance with environmental protection, occupational safety and health, and labor rights. Then, the Company selects qualified suppliers after a comprehensive evaluation is conducted.	None

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
			<p>2. In 2021, the Company had worked with 25 suppliers, and 23 of them had achieved ISO 14001 Certification for environmental management system, accounting for 92% of the overall suppliers. Among them, the 8 key suppliers had all achieved the Certification and accounted for 100%. In addition, 100% of raw materials used were sourced from smelters that are approved by the global sustainability initiative organization; 100% of suppliers complied with RoHS and REACH regulations; and 100% of manufacturing suppliers completed supplier system audits via QSA.</p> <p>3. Items completed in 2021:</p> <p>(1) Signing of Supplier Integrity Pledge: Suppliers who signed the pledge reached 100%.</p> <p>(2) Requiring suppliers other than fabs to comply with the Responsible Business Alliance (RBA) rules using questionnaires: The number of suppliers who obtained licenses or complied with the RBA rules on environmental protection, occupational safety and health, or labor rights reached 100%.</p> <p>(3) Requiring suppliers to save energy and reduce carbon emissions at their end: Suppliers who set their goals and achieved them reached 69%.</p>	
5. Does the Company refer to international standards or guidelines in the preparation of its reports, such as Sustainability Report/ESG Report, that disclose non-financial information? Has the Company obtained a third-party verification or assurance opinion on previously-disclosed reports?	✓		<p>The Company's 2020 Corporate Social Responsibility (CSR) Report was completed and disclosed on the Company's website in 2021 after obtaining a third-party verification or assurance opinions.</p> <p>http://www.focaltech-electronics.com/cf/investor/qyshzr.html</p>	None
<p>6. If the Company has formulated its own Sustainable Development Best Practice Principles in accordance with the Sustainable Development Best Practice Principles for TWSR/GTSM Listed Companies, specify the differences between its implementation and the Principles formulated:</p> <p>The Company has not formulated its own Sustainable Development Best Practice Principles, but a Sustainable Development Plan that has been implemented after submission to the Board of Directors for approval. Also, the Sustainable Development Plan implementation status is reported to the Board of Directors on a regular basis. Other related issues, such as corporate governance, environmental protection, and employee rights and interests, are implemented in accordance with the Company's internal systems and regulations. The Sustainable Development Plan and its implementation status are disclosed on the Company's website under the ESG-related information, as well as in the Corporate Social Responsibility (CSR) Report.</p> <p>http://www.focaltech-electronics.com/cf/investor/qyshzr.html</p>				

Items for advocacy	Operation Status (Note 1)			Deviations from Corporate sustainable development Best Practice Principles for TWSE/TPEX Listed Companies and reasons
	Yes	No	Summary	
<p>7. Other important information for understanding the Company’s advocacy of sustainable development implementation: In 2021, the Company became involved in social welfare activities, including supporting St. Joseph Social Welfare Foundation for the heartwarming event named “Love Fun – Christmas Heartwarming Gift Sending Campaign” to collect Christmas gifts for underprivileged families. Other than that, the Company also collected invoices and second-hand items, including books, pots and pans, and toys. The collection was completed by the end of the year and sent to special needs centers and the educational and nursing institutes.</p>				

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

Items for evaluation	Implementation Status		Summary	Deviations from "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and reasons
	Yes	No		
<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/TPEX 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 newly senior management in 2021.</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. Also, relevant departments are then instructed to review the Internal Control System and operation procedures.</p>	None
<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>✓</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>	None

Items for evaluation	Implementation Status			Deviations from "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and reasons
	Yes	No	Summary	
<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>(5) Has the Company organized internal and external training on ethical management?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(2) The Company's Board of Directors approved the Code of Business Conduct and Ethics on October 26, 2018. The Corporate Governance Group (which was renamed the Sustainable Development Group in 2022), which is under the purview of the Board of Directors, is responsible for the formulation and promotion of ethical corporate management policy. The Group's duties are as described above for the corporate governance operations, and such operations are reported to the Board of Directors on an annual basis. The implementation status for 2021 was reported to the Board of Directors on February 23, 2022.</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> <p>(5) The training of new employees includes the promotion of industrial business conduct and ethics regularly. Irregular training sessions are held for specific employees to enable them to clearly understand the Company's ethical corporate management philosophy and standards.</p>	
<p>3. The reporting system of the Company in action</p> <p>(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?</p> <p>(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?</p> <p>(3) Has the Company taken protection measures to protect the informant from improper treatment after reporting on unethical practices?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(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 Audit Committee convener and the audit supervisor shall jointly receive and manage the reported matters, and handle them as confidential cases to protect the informant.</p> <p>(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.</p> <p>(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.</p>	None
4. Enhancing Information Disclosure				None

Items for evaluation	Implementation Status		Summary	Deviations from "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies" and reasons
	Yes	No		
(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.	
5. If the Company has established performance of good-faith management best practice principles based on "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX 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				

- (8) 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.
- (9) Other important information sufficient to improve understanding of how corporate governance works: none

(10) Implementation Status of Internal Control System

1. Internal Control System Statement


FocalTech Systems Co., Ltd.
Internal Control System Statement

Date: February 23, 2022

With regard to the 2021 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, 2021 (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 23, 2022, where none of the seven 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.

(11) 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.

(12) 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. 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 shareholders' regular meeting.
Apr. 7, 2021	Approved the method of treasury stock subscription by employees.
	Approved the treasury stock subscription name list.
	Approved the new restricted employees share issuance name list.
Apr. 28, 2021	Approved the 2021 Q1 Financial Statement.
	Approved the proposal for 2020 earnings distribution.
	Approved the acquisition of property – office buildings.
July 29, 2021	Approved the 2021 Q2 Financial Statement.
	Approved authorization of the Chairman to determine the Record Date and Distribution Date of dividends.
Oct. 28, 2021	Approved the 2021 Q3 Financial Statement.
	Appointed the CFO and Financial .
	Hired a new Chief Accountant.
Feb. 23, 2022	Approved the 2021 Financial Statement.
	Approved the amount of director and employee compensation for 2021, and its distribution method and recipients.
	Convened the Company's 2022 annual shareholders' regular meeting.

2. Important Resolutions of Shareholders' Meeting and Implementation Status

Date	Important Resolutions and Implementation Status Thereof
Aug. 19, 2021	<p>1. Recognition of 2020 Business Report and Financial Statement. Implementation Status: Resolution was adopted.</p> <p>2. Recognition of 2020 Earnings Distribution Proposal. Implementation Status: September 21, 2021 was set as the Record Date, and October 14, 2021 was set as the Ex-dividend Date; cash distribution of approximately NT\$3.23 per share has been completed.</p> <p>3. Approval of amendment to the Articles of Incorporation. Implementation Status: Resolution was adopted and implemented, and the change registration was completed on August 27, 2021.</p> <p>4. Approval of amendment to the Rules of Procedure for Shareholders Meetings Implementation Status: Resolution was adopted and implemented.</p>

(13) 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

(14) 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 :

April 30, 2022

Title	Name	Date assumed	Date discharged	Reason of resignation or discharge
Financial and accounting officer	James Liao	March 5, 2015	August 27, 2021	Duty adjustment
Corporate governance officer	Li-Hsin Yang	November 6, 2020	October 28, 2021	Duty adjustment

4. Disclosure of the CPAs' fee

(1) Fee information

Unit: NT\$ thousand

Accounting Firm	Names of CPAs	Duration of Audit	Auditing fee	Non-Auditing fee	Total	Note
Deloitte & Touche	Shiow-Ming Shue	January 1, 2021 to December 31, 2021	4,750	768	5,518	Non-Audit fee 1. The amount paid on behalf of the Company during the audit period: 328. 2. Obsolete-inventory review fee: 30. 3. Payroll information checklist: 50. 4. Opinion letters and case review forms issued for additional services, such as issuance of restricted stock, capital reduction related or submission to the Investment Commission: 360.
	Chih-Ming Shao					

(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:

(1) Information on Predecessor CPA

Date of Replacement	February 23, 2022		
Reason for replacement and explanation	In accordance with the provisions of Article 20 of the Statement of Auditing Standards No. 46, the in-charge accountant who undertakes the audit of the financial statements of a listed company shall be rotated after an engagement period of seven years as prescribed by the Code of Professional Ethics for CPAs or by law.		
Whether the Company terminated or discontinued the engagement, or the CPA voluntarily ended the engagement or declined further engagement	The person involved		
	Situation	CPA	The Company
	Voluntarily ended the engagement	N/A	N/A
Declined (Discontinued) further engagement	N/A		N/A
The opinion and reason for the audit report issued by the CPA during the two most recent years containing expressions other than an unqualified opinion	None		
Any disagreement between the CPA and the Company	Yes		Accounting principles or practices
			Financial report disclosure
			Auditing scope or procedure
			Others
	No	✓	
Explanation			
Other disclosures (Matters related to Article 10, paragraph 6, items 1 (4) to (7) of the Regulations that shall be disclosed)	None		

(2) Information on the successor CPA

Name of the accounting firm	Deloitte & Touche
Name of the CPA	CPA Chih-Ming Shao, CPA Ming-Hsing Cho
Jp6Date of engagement	February 23, 2022
The subjects discussed during the consultations as well as their results regarding the accounting treatment of or application or accounting principles to a specified transaction, or the type of audit opinion that might be rendered on the Company's financial report prior to the formal engagement of the successor CPA	None
Written views obtained from the successor CPA regarding the matters on which the Company did not agree with the former CPA	None

(3) The content of the reply letter from the previous CPA regarding Article 10, paragraph 6, items 1 and 2 (3) of the Regulations: N/A

6. The chairman, president, chief financial or accounting manager of the Company who holds position in the business under the commissioned CPA firm or its affiliates in 1 year: None

7. In the most recent year to the date this report was printed, directors, supervisors, managerial officers and the shareholders holding more than 10% of the shares in the transfer of shares and pledge of shares under lien, and any change thereof.

(1) Changes in shareholdings:

Unit: Share

Title	Name	2021		As of April 11, 2022	
		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 and President	Genda Hu	428,027 (260,000)	0	68,261	0
Director	GWAALLC Representative: Han-Ping Shieh	0	0	0	0
Director	GWAALLC Representative: Chenming Hu				
Director and Financial and accounting officer	James Liao (Date discharged of Financial and accounting officer: August 27, 2021) (Date discharged of Director: September 1, 2021)	217,763 (479,000)	0	0	0
Independent Director	Chang Xu	0	0	0	0
Independent Director	Xuhui Xu	0	0	0	0
Independent Director	Chan-Jane Lin	0	0	0	0

Independent Director	Chintay Shih	0	0	0	0
Vice President	Ching-Kai Chang	170,000 (97,408)	0	0	0
Vice President	Wei-Ching Hou	108,000 (78,762)	0	0	0
Business Vice President	Lien-Kuo Wang	56,000 (99,220)	0	138,000	0
Business Vice President	Ching-Suo Wang	40,000 (85,362)	0	0	0
Vice President	Hsiao-Hsu Tu	120,000 (248,536)	0	13,000	0
Vice President	He-Nien Yang (Date discharged: September 30, 2021)	197,012 (217,000)	0	0	0
Vice President	Pei-Tzu Wu	138,763 (125,000)	0	21,003	0
Business Assistant Vice President	Te-Chih Kung	58,000 (58,512)	0	0	0
Vice President	Sung-Tsan Chiang	89,000 (89,000)	0	0	0
Vice President	Jui-Cheng Hsu (Date assumed: February 1, 2021)	135,761 (189,000)	0	21,003	0
Deputy Vice President	Chun-Fu Wang	66,007 (94,916)	0	17,202 (6,000)	0
Deputy Vice President	Cheng-Tao Chuang	129,058 (177,000)	0	14,002 (1,000)	0
Deputy Vice President	Po-Sheng Shih (Date assumed: January 6, 2021)	69,706 (82,208)	0	12,602	0
Senior Vice President	Shih-Hui Cheng (Date assumed: September 8, 2021)	25,000	0	0	0
Deputy Vice President	Hung-Jen Chien (Date assumed: September 8, 2021)	0	0	10,502	0
Senior Deputy Vice President	Ching-Hsing Chang (Date assumed: February 8, 2021)	100,000 (100,000)	0	0	0
Corporate governance officer	Li-Hsin Yang (Date discharged: Oct. 28, 2021)	79,505 (48,000)	0	0	0
Vice President, CFO, Spokesperson and Corporate governance officer	Wei-Chieh Chang (Date assumed: July 26, 2021)	100,000 (100,000)	0	0	0
Accountant Officer	Ching-Ting Chiu (Date assumed: Oct. 28, 2021)	0	0	0	0
Deputy Vice President	Chen Kuo (Date assumed: February 14, 2022)	0	0	0	0
Shareholders holding more than 10% of the shares	Egis (Date discharged: April 19, 2021)	0 (33,966,575)	0	0	0

Director	Sense Investment and Consulting Inc. Representative: George Chang (Date discharged: April 19, 2021)	0 (35,005)	0	0	0
Vice President	Chien-kuo Wang (Date discharged: February 8, 2021)	0	0	0	0
Deputy Vice President	Cheng-Yi Hsieh (Date assumed: January 16, 2021) (Date discharged: March 3, 2021)	0	0	0	0

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.

(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): None.

(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 or spouse, kindred within the 2nd degree of kinship

April 11, 2022; 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	Ratio of shareholding	Number of Shares	Ratio of shareholding	Number of Shares	Ratio of shareholding	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.	5,369,157	2.48	—	—	—	—	—	—	—
GWAALLC Responsible Person : Genda Hu	4,158,691	1.92	—	—	—	—	—	—	—
	1,140,165	0.53	455,072	0.21	—	—	—	—	—
CTBC Bank Trust Account in its Capacity as Trustee for Restricted Shares of FocalTech Systems Co., Ltd. Employees with Voting Rights and with Rights to dividends	3,482,000	1.61	—	—	—	—	—	—	—
Employee shareholding trust asset account of FocalTech Systems Co., Ltd. under CTBC Bank	2,888,450	1.33	—	—	—	—	—	—	—
JPMorgan Chase Bank N.A., Taipei Branch in Custody of Emerging Markets	2,628,482	1.21	—	—	—	—	—	—	—

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	Ratio of shareholding	Number of Shares	Ratio of shareholding	Number of Shares	Ratio of shareholding	Name	Relation	
Stock Index Fund, a series of Vanguard International Equity Index Funds									
JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	2,421,403	1.12	—	—	—	—	—	—	
Morgan Standley Co. International PLC	1,400,786	0.65	—	—	—	—	—	—	
Genda Hu	1,140,165	0.53	455,072	0.21	4,158,691	1.92	GWAALLC	Responsible Person of GWAALLC	
JPMorgan Chase Bank N.A. in custody of Vanguard Trust Stock Index Fund II	1,017,732	0.47	—	—	—	—	—	—	

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, 2021; Unit: Share ; %

Investee	Investment made by the Company		Investment made by directors, supervisors, managerial official and direct or indirect subsidiaries		Combined investment	
	Number of Shares	Ratio of shareholding	Number of Shares	Ratio of shareholding	Number of Shares	Ratio of shareholding
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.	1,591,914	9.14	10,180,237	58.45	11,772,151	67.59
Hefei PineTech Electronics Co., Ltd.	—	—	Note	100	Note	100
FocalTech Smart Sensors, Ltd.	3,000,000	9.14	19,188,050	58.45	22,188,050	67.59
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, 2022; 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: 1,025,000	—	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: 492,000	—	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: 6,470,000	—	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: 463,000	—	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: 1,903,000	—	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: 2,310,000	—	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: 880,000	—	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 : 899,721,000	—	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: 228,000	—	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: 3,076,000	—	Mar. 3, 2021- Zhu-shang-tzu No.1100005620
Apr. 2021	10	500,000	5,000,000	216,102	2,161,022	Common share from issuing of new restricted employee shares:57,490,000	—	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: 1,747,000	—	May 20, 2021- Zhu-shang-tzu No. 1100014308
Aug. 2021	10	500,000	5,000,000	216,513	2,165,129	Common share from issuing of new restricted employee shares:2,360,000	—	Aug. 4, 2021- Zhu-shang-tzu No. 1100021939
Aug. 2021	15.9~36.8	500,000	5,000,000	216,592	2,165,921	Common share transfer from employee stock options: 792,000	—	Aug. 18, 2021- Zhu-shang-tzu No. 1100023341
Nov. 2021	15.9~36.8	500,000	5,000,000	216,510	2,165,097	Common share transfer from employee stock options: 694,000 Common share from cancellation of new restricted employee shares:1,400,000	—	Nov. 18, 2021- Zhu-shang-tzu No. 1100034139

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
						Common share from cancellation of treasury shares: 119,000		
Mar. 2022	15.9~36.8	500,000	5,000,000	216,237	2,162,367	Common share transfer from employee stock options: 530,000 Common share from cancellation of new restricted employee shares: 326,000	—	Mar. 18, 2022- Zhu-shang-tzu No. 1110009309
May. 2022	15.9~36.8	500,000	5,000,000	216,435	2,164,347	Common share transfer from employee stock options: 2,140,000 Common share from cancellation of new restricted employee shares: 160,000	—	The employee stock options have been exercised in 2022Q1, but the change registration have not been completed. It is expected to be completed in May, 2022.

2. Type of Stock

Apr. 30, 2022; Unit: shares

Type of Stock	Authorized Capital Stock			Remarks
	Outstanding shares	Unissued stock	Total	
common shares	216,434,650	283,565,350	500,000,000	Listed shares

(2) Composition of Shareholders

April 11, 2022; Unit: Share

Quantity \ Composition of Shareholders	Government Apparatus	Financial Institution	Other Juridical person	Individual	Foreign Institution and Foreigner	Total
Number of persons	—	4	246	70,074	182	70,506
Shareholding (Shares)	—	6,655,673	11,850,832	170,353,288	27,590,857	216,450,650
Ratio of Shareholding (%)	—	3.07	5.47	78.71	12.75	100.00

Note: The above information is the shareholding information recorded as of the final day for share transfer prior to the publication date of the annual report.

(3) Shareholding Distribution Status

1. Common Share Distribution Status

April 11, 2022 ; Unit: Share

Holding share classification	No. of Shareholders	Shareholding	Ratio of Shareholding
1 to 999	21,099	3,069,433	1.42%
1,000 to 5,000	43,685	79,161,565	36.56%
5,001 to 10,000	3,479	27,036,849	12.49%
10,001 to 15,000	872	11,160,301	5.16%
15,001 to 20,000	488	9,064,728	4.19%

Holding share classification	No. of Shareholders	Shareholding	Ratio of Shareholding
20,001 to 30,000	378	9,646,434	4.46%
30,001 to 40,000	142	5,098,937	2.36%
40,001 to 50,000	103	4,786,667	2.21%
50,001 to 100,000	146	10,450,363	4.83%
100,001 to 200,000	58	8,252,570	3.81%
200,001 to 400,000	33	9,027,022	4.17%
400,001 to 600,000	6	3,064,716	1.42%
600,001 to 800,000	7	4,722,676	2.18%
800,001 to 1,000,000	0	0	0.00%
1,000,001 and above	10	31,908,389	14.74%
Total	70,506	216,450,650	100.00%

Note: The above information is the shareholding information recorded as of the final day for share transfer 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 11, 2022 ; Unit: Share

Name of major shareholder	Shares	Shareholding	Ratio of Shareholding
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.		5,369,157	2.48
GWAALLC Responsible Person : Genda Hu		4,158,691	1.92
CTBC Bank Trust Account in its Capacity as Trustee for Restricted Shares of FocalTech Systems Co., Ltd. Employees with Voting Rights and with Rights to dividends		3,482,000	1.61
Employee shareholding trust asset account of FocalTech Systems Co., Ltd. under CTBC Bank		2,888,450	1.33
JPMorgan Chase Bank N.A., Taipei Branch in Custody of Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds		2,628,482	1.21
JPMorgan Chase Bank N.A., Taipei Branch in Custody of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds		2,421,403	1.12
Morgan Standley Co. International PLC		1,400,786	0.65
Genda Hu		1,140,165	0.53
JPMorgan Chase Bank N.A. in custody of Vanguard Trust Stock Index Fund II		1,017,732	0.47

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

Unit: NT\$; Thousand shares

Item/Year		2020	2021	As of April 30, 2022 (note 5)
Market Price Per Share	The Highest	102	298	178
	The Lowest	22.45	79.2	112
	Average	38.64	173.4	145.35
Net Value Per Share	Before distribution	37.28	63.01	67.59
	After distribution	33.94	(note 1)	—
Earnings per share	Weighted average shares	254,897	202,208	204,384
	Earnings per share (Note 7)	3.97	30.23	3.57
Dividend Per Share	Cash dividends	700,000,000	(note 1)	—
	Stock dividend distribution	Retained Shares Distribution	—	—
		Capital reserve Shares Distribution	—	—
	Retained Dividends	—	—	—
Return on Investment Analysis	Price-to-Earnings Ratio (Note 2)	9.73	5.74	—
	Price-to-Dividend Ratio (Note 3)	11.96	(note 1)	—
	Cash Dividend Yield Rate (Note 4)	8.36%	(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 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

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. However, when the legal reserve has amounted to the Company's paid-in capital, the Company needs not set aside the legal reserve, and instead set aside or reverse the remaining 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 dividends shall then be distributed to shareholders.

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 distributed.

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

The Company's proposal for 2021 annual earnings distribution was resolved by the Board of Directors on April 25, 2022. The Board of Directors proposed the distribution of 2021 annual earnings in the amount of NT\$3,400,000 thousand in cash dividends to shareholders, with each share to be distributed in the amount of approximately NT\$15.71 based on the outstanding shares on April 15, 2022. After the resolution of the shareholders' regular meeting this year, the Chairman is authorized to further set the 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 2021, the net income attributable to owners of the Company is NT\$6,112,935,318. It is proposed to allocate 4.05% and 0.38% of the Company's profit for employee and director compensation, amounting to NT\$316,729,995 and NT\$30,000,000, 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 2021 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 2020	Earning distribution of 2021
	Actual number of distributions	Proposed distribution approved by the board of directors
Remuneration of Directors and Supervisors	7,213,921	30,000,000
Remuneration of employee – cash	123,450,390	316,729,995
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)

April 30, 2022

Term of Repurchase	First	Second	Third	Fourth	Fifth	Sixth
Purpose of Repurchase	Transfer shares to employees	Transfer shares to employees	Transfer shares to employees	Transfer shares to employees	Transfer shares to employees	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	April 6, 2022 to April 19, 2022
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.	NT\$103 to NT\$231 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	Common share: 4,000,000 shares
Monetary Amount of Shares Repurchased	NT\$0	NT\$132,625,675	NT\$245,812,665	NT\$192,810,452	NT\$192,095,557	NT\$507,620,748

Ratio of Shares Repurchased to Shares Planned to be Repurchased (%)	0.00%	100.00%	85.10%	100.00%	96.11%	100%
Number of Shares Canceled and Transferred	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	Common share: 0 shares
Cumulative Number of Shares Held by the Company	Common share: 0 shares	Common share: 0 shares	Common share: 0 shares	Common share: 0 shares	Common share: 0 shares	Common share: 4,000,000 shares
Proportion of Company's Cumulative Number of Shares Held to Total Shares Issued (%)	0.00%	0.00%	0.00%	0.00%	0.00%	1.85%

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

2. Status of Corporate bond: None

3. Status of preferred share: None

4. Status of overseas depository receipt: None

5. Status of employee stock options

(1) Status of employee stock options issued by the Company that have not yet matured

April 11, 2022

Type of employee stock options Issued	Stock options from former FocalTech employees by inheritance (Note 1)	Fourth (Period) employee stock options 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	5.40%	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	8,951,177	1,733,750								
Amount of Shares Subscribed	140,804 thousand	22,649 thousand								
Number of Unsubscribed Shares	51,399	106,000								
Subscription Price Per Share of Unsubscribed Shares	NT\$36.17	NT\$15.6								
Proportion of Unsubscribed Shares to Total Issued Shares (%)	0.02%	0.05%								
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 11, 2022; 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	1,692,000	0.78%	1,673,000	NT\$1.63~ NT\$15.90	17,462,000	0.77%	19,000	NT\$15.60	296,000	0.01%
Vice President	He-Nien Yang (note 1)										
Vice President	Ching-Kai Chang										
Vice President	Wei-Ching Hou										
Vice President	Hsiao-Hsu Tu										
Business Vice President	Lien-Kuo Wang										
Business Assistant Vice President	Te-Chih Kung										
Deputy Vice President	Chun-Fu Wang										
Chief Financial Officer	James Liao (note 2)										

Note 1: He resigned on September 30, 2021.

Note 2: He discharged on August 27, 2021 due to duty adjustment.

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

April 11, 2022; 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
Vice General Supervisor	Chuan Ting	1,342,292	0.62%	1,302,292	NT\$1.75~ NT\$36.8	21,953,000	0.60%	40,000	NT\$36.17	1,447,000	0.02%
Vice General Supervisor	Chin-Cheng Tien										
General Supervisor	Ta-Chun Wu										
Senior Manager	Hua Lee										
Senior Manager	Chen-Wei Lee										
Manager	Shen Lee										
Vice Director (note 1)	Chun-Yu Chiu										
Director	Kuan-Hua Liao										
General Supervisor	Hsin-Hsi Chiang										
Senior Manager	Wen-Yung Lung										

Note 1: He resigned on April 1, 2021.

6. Description of new restricted employee share status shall include the following:

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

April 11, 2022

Type of New Restricted Employee Shares Issued	Third (period) issuance new restricted employee shares
Date of Effective Registration from the Competent Authority	August 12, 2020
Issue Date	April 20, 2021 and July 29, 2021
Number of New Restricted Employee Shares Issued	5,985,000 shares
Issue Price	NT\$10 per share
Proportion of New Restricted Employee Shares Issued to Total Issued Shares	2.77%
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"> 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. 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

	<p>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.</p> <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	482,000 shares
Number of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have	0 share

Been Released	
Number of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Not Been Released	5,503,000 shares
Proportion of New Restricted Employee Shares Regarding Which the Restrictions on Rights Have Not Been Released to the Total Issued Shares (%)	2.54%
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:

1. Names and acquisition status of managerial officers who have acquired new restricted employee shares

April 11, 2022

Title	Name	Number of New Restricted Employee Shares Acquired	Proportion of New Restricted Employee Shares Acquired to Total Issued Shares	Restrictions on Rights Released				Restrictions on Rights Not Released			
				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	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
CEO and President	Genda Hu	1,500,000	0.69%	0	0	0	0	1,248,000	NTD10	12,480,000	0.58%
Chief Financial Officer	James Liao(note 1)										
Vice President, CFO, Spokesperson and Corporate governance officer	Wei-Chieh Chang										
Senior Vice President	Shih-Hui Cheng										
Vice President	Wei-Ching Hou										
Vice President	He-Nien Yang (note 2)										
Vice President	Jui-Cheng Hsu										
Vice President	Sung-Tsan Chiang										

Vice President	Pei-Tzu Wu										
Vice President	Hsiao-Hsu Tu										
Business Vice President	Ching-Suo Wang										
Business Vice President	Lien-Kuo Wang										
Business Assistant Vice President	Te-Chih Kung										
Senior Deputy Vice President	Ching-Hsing Chang										
Deputy Vice President	Cheng-Tao Chuang										
Deputy Vice President	Po-Sheng Shih										
Deputy Vice President	Hung-Jen Chien										
Corporate governance officer	Li-Hsin Yang(note 3)										

Note 1: He discharged on August 27, 2021 due to duty adjustment.

Note 2: He resigned on September 30, 2021.

Note 3: He discharged on October 28, 2021 due to duty adjustment.

2. Names and acquisition status of the top ten employees in terms of the number of new restricted employee shares acquired

Title	Name	Number of New Restricted Employee Shares Acquired	Proportion of New Restricted Employee Shares Acquired to Total Issued Shares	Restrictions on Rights Released				Restrictions on Rights Not Released			
				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	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)
Tech. Deputy Vice President	Yun-Hua Wang	560,000	0.26%	0	0	0	0	482,000	NTD10	4,820,000	0.22%
Special Assistant of President	Chung-Yang Chiang										
General Supervisor	Ta-Chun Wu										
Direcoter	Chiung-Ju Chou										
Direcoter	Wei-Chih Chang										
Senior Direcoter	Ming-Yu Chen (note 1)										
Tech. Deputy Vice President	Chun-ChinHuang										
Direcoter	Wei-Chang Huang										

Vice General Supervisor	Chun-Chiao Liu										
General Supervisor	Kuo-Chieh Liu										

Note 1: He resigned on November 30, 2021.

7. Status regarding issuance of new shares in connection with mergers or acquisitions of other companies' shares: None.
8. Status regarding implementation of the Company's capital allocation plans: N/A.

V. Operation Overview

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 (2021) : 100% for human-machine interface application IC

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
- (7) NB touch pad

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

(1) Integrated driver controller (IDC)

- A. IDC products that support C-PHY/D-PHY interface
- B. Develop COG ultra-narrow bezel products
- C. High frame rate applies IDC technology
- D. Develop IDC IC with multi-channel 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

(3) Capacitive touch IC

- A. Development of TFT panel capacitive active stylus technology
- B. Development of TFT panel ultra-fine tip passive stylus IC development
- C. Development of AMOLED panel touch technology with multi-finger high touch reporting rate
- D. Development of the finger and pen 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)
- G. Ultrasonic fingerprint recognition IC.
- H. Automobile capacitive fingerprint recognition IC.
- I. 2.5D anti-counterfeiting algorithm for capacitive and optical fingerprint recognition IC.

(5) AMOLED panel driver IC

- A. Display driver IC (DDIC).
- B. Touch and Display Driver Integration (TDDI) or Integrated Driver Controller (IDC).
- C. Development of high rate Demura, De-Burn In, Cascade information processing technology.

(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 and cloud system platform.
- B. Technology development of non-binding, small-sized blood pressure, heartbeat, oxygen saturation and EKG measurement devices.

2. Industry Overview

1. Current status and development of human-machine interface related industries

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

According to the research report of Research and Markets, since 5G technology will hold more than 50% market share in 2022 and promote the transformation of the digital society, it is estimated that the global 5G market will rise to US\$ 251 billion in 2025. After the popularization of 5G technology, it will provide larger and faster communication bandwidth for portable mobile devices

and Internet of Things (IoT) applications, thereby offering more business opportunities for the industry.

Based on the current market demand for portable mobile devices, it is estimated that the first wave of demand for 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 Internet of Things (IoT), currently, the development of the 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.

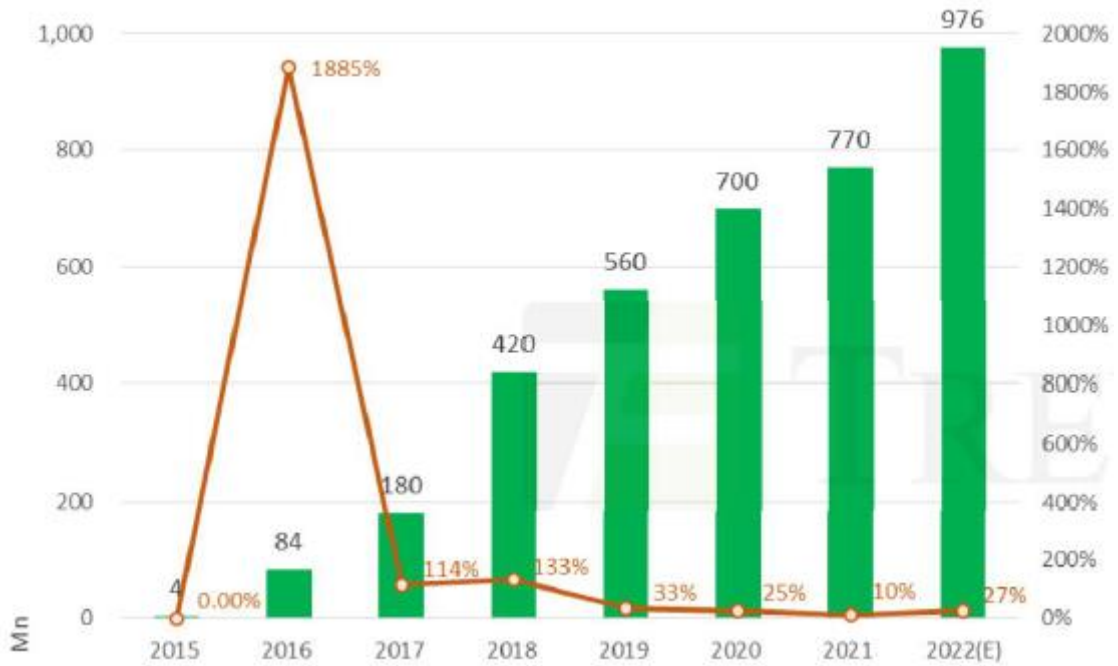
(1) Current status of the portable mobile device panel driver IC and touch IC industries:

Portable mobile devices include mobile phones, notebook computers, tablets, among which smartphones are the majority. Due to the advancement of the aforementioned industry, the growth in the demand 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. In 2021, the development of mobile phones has started to direct towards high frame rate with an aim to add 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.

In 2021, in order to hold a higher market share and increase the screen frame rate, mobile phone manufacturers largely adopted the IDC solution. Consequently, its annual shipment volume was close to 770 million units. It is expected that the annual shipment volume in 2022 will reach as high as 980 million units.

Figure 5-1: Global shipment volume of smartphones that adopt IDC from 2018 to 2022

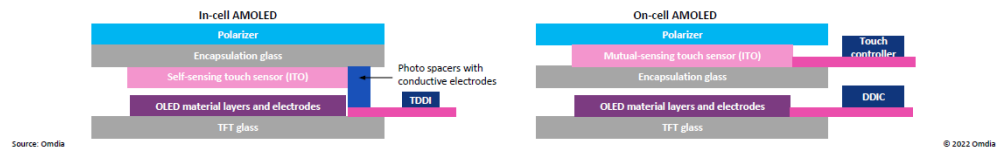


Source: Trendforce seminar, Q1 of 2022

Other than TFT in-cell display technology, smartphones adopting AMOLED panels have risen as the mainstream in the market. With the increasing production capacity of POLED, the cost is gradually decreasing, thus the number of mobile phones adopting flexible AMOLED panels has exceeded those adopting rigid AMOLED. In addition, with the improvement of technology, more and more brand manufacturers have begun to promote foldable AMOLED mobile phones.

The design structure of the touch function adopting AMOLED panels is mainly based on on-cell design method technology, which is further divided into on-cell technology for rigid panels and on-cell technology for flexible panels. Yet, it has led to the evolution of AMOLED TP technology. With the strong market demands for higher report rate and foldable devices, the technology of AMOLED TP products is also moving forward.

The sensor structure of the first in-cell AMOLED for smartwatches



According to the analysis report of the market report agency, Omdia Touch Panel Market Tracker, TFT in-cell touch panels have accounted for more than 50% of the overall smartphone market since 2021, while the smartphone market share of the AMOLED on-cell touch panels increased

to 37.9% in 2021. On the other hand, the percentage of traditional out-cell capacitive touch display was reduced to less than 15%.

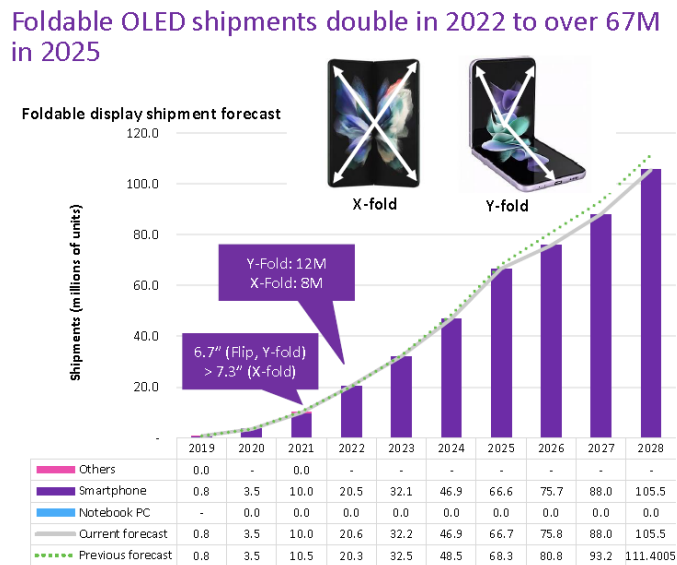
Figure 5-2: Percentage of various touch screen technologies adopted by mobile phone display

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, Q1 of 2022

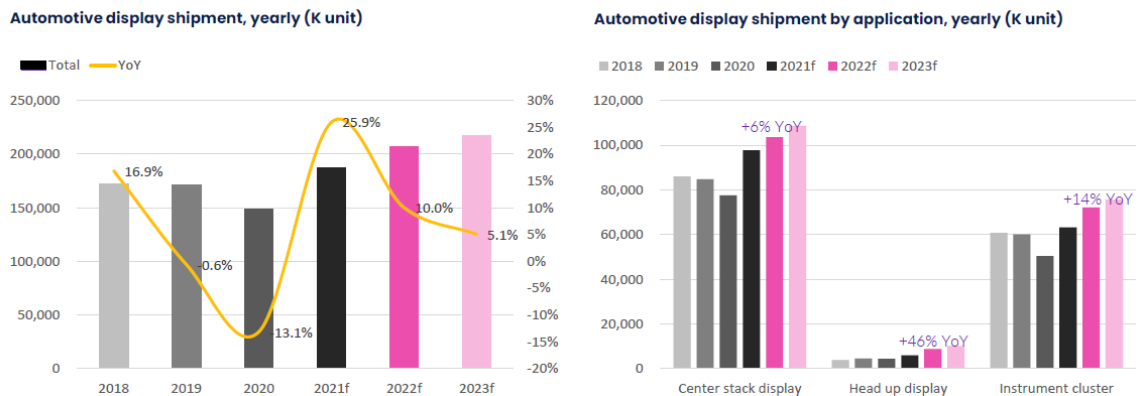
Figure 5-3: Mobile phone shipment forecast using foldable AMOLED display



Source: Omdia Top 10 Display Topics, Q1 of 2022

In addition to smartphones, touch and display-related technologies have gradually expanded to the automotive industry. The shipment status of the automotive market is based on two main factors, the first being the number of automobiles sold for the year, and the second being the number of panels used in automobile cabin, with the shipment volume being the result of multiplying these two main factors. Between 2019 and 2021, the shipment volume of automobiles was impacted by the COVID-19 pandemic, which caused the number of automobiles sold in 2020 to drop to 74.6 million units. Initially, it was expected that after the pandemic was under control in 2021, the annual shipment volume would quickly rebound to the normal level of 90 million per year. However, the virus has mutated constantly, as a result, the annual growth rate of shipments can only be maintained at 1.6%, and the sales figure at 7,580 units. It is expected that with the gradual stabilization of the pandemic in 2023, the slow growth trend will resume. In terms of the automobile sales in 2022, Europe is predicted to have the largest growth, followed by North America, with South America being the third.

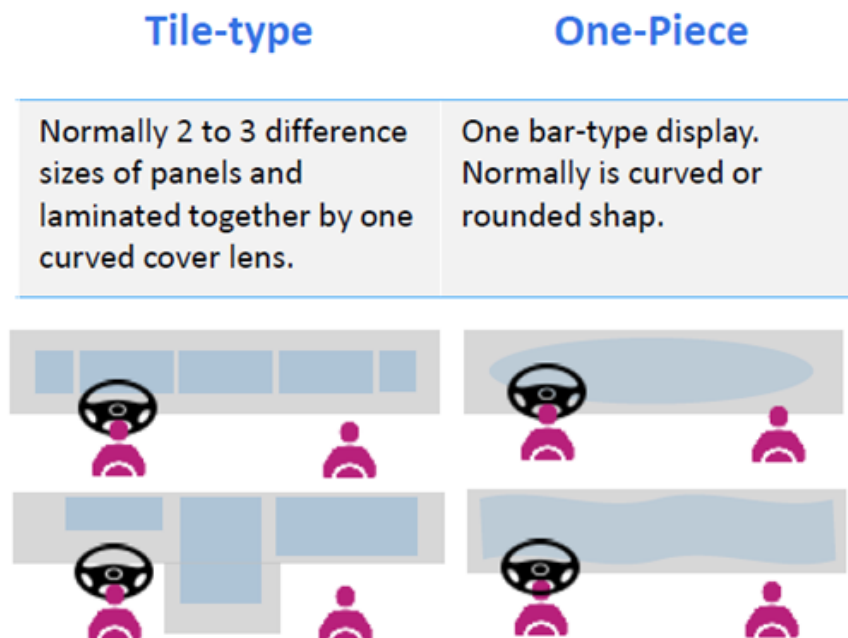
Figure 5-4: Automotive display panel shipment forecast



Source: Omdia Touch Panel Market Tracker Report, Q1 of 2022

Additionally, an automobile will be equipped with multiple display screens; therefore, the growth in demand for the automotive display panels will be higher than that of the main body of the automobile. Figure 5-5 shows that, regardless of the tile-type or one-piece display, the display screens in automobiles will become bigger in size or increase in number, and the demands for driver and touch IC will also increase exponentially. Furthermore, automotive ICs place more emphasis on safety, with a longer development and introduction time, thus making the development more difficult compared to general consumer products.

Figure 5-5: Type of automotive display



As for devices such as tablets, notebooks, and wearables, human-machine interface function, such as active stylus-related needs, will also be added in the future to provide a better user experience. A highly integrated IDC active stylus solution combined with a higher frame rate display

solution can make the module architecture lighter and more compact, 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 is mainly used in devices for consumer electronics (smartphones, notebook computers, wearable devices, smart cards, smart homes, etc.), industry (automotive, office access, medical, retail, finance, etc.), and homeland security (government, security, military departments, etc.). The popularization of mobile internet applications led to the rapid growth of 5G in 2020, as well as the arrival of the electronic transaction era, making the risk of using traditional password authentication higher. The application of biometric authentication using personal biometric characteristics can effectively solve the problem of security authentication. Therefore, related technologies have been developed rapidly in recent years. ABI Research showed that the total output value of the global biometrics market would 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 enhances the security of mobile payments has been highlighted.

Fingerprint recognition technology can be divided into optical, capacitive and ultrasonic types. Since capacitive fingerprint recognition is 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 and ultrasonic fingerprint recognition technologies have been developed, and 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 fingerprint recognition in terms of applications. Currently, optical in-display fingerprint recognition has been commercially used by mobile phone brand manufacturers. Nevertheless, 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.

Ultrasonic fingerprint is more advantageous in terms of security and accuracy. However, it has a higher cost with a lower yield rate, so it is priced higher and mainly used in high-end mobile phones currently. Since Samsung Galaxy S series and VIVO IQOO series mobile phones using ultrasonic fingerprint get great market feedback, it is expected that various terminal manufacturers will start to adopt ultrasonic fingerprint in high-end models over the next two years. With the rapid growth in the number of shipments for ultrasonic fingerprint modules, the cost will drop accordingly. Also, ultrasonic fingerprint is expected to become a standard feature for

high-end flagship models in the future.

(3) Industry for physiological monitoring products:

The continuing spread of COVID-19 variant has boosted the demand for medical equipment. Pandemic prevention materials, rapid screening reagents, medical equipment for disease diagnosis, such as thermometers, ear thermometers, physiological monitoring devices, pandemic prevention robots, and remote health monitoring devices, have all gained tremendous attention. Furthermore, the aging trend of the world's population will also increase the demand for medical equipment for chronic disease monitoring, such as sphygmomanometers and glucometers. In addition to cancer, cardiovascular-related diseases have always been the major concerns for people, causing the demand for electrocardiogram (EKG) and other cardiovascular-related monitoring devices to increase. To ensure the safety of public health and pandemic prevention, medical services may be carried out in the form of distance diagnosis, telemedicine, and in-home medical treatment, which will increase the demand for personalized medical equipment and services. 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 diversity and growth of the physiological detection industry, such as 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 foundry/IDM

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

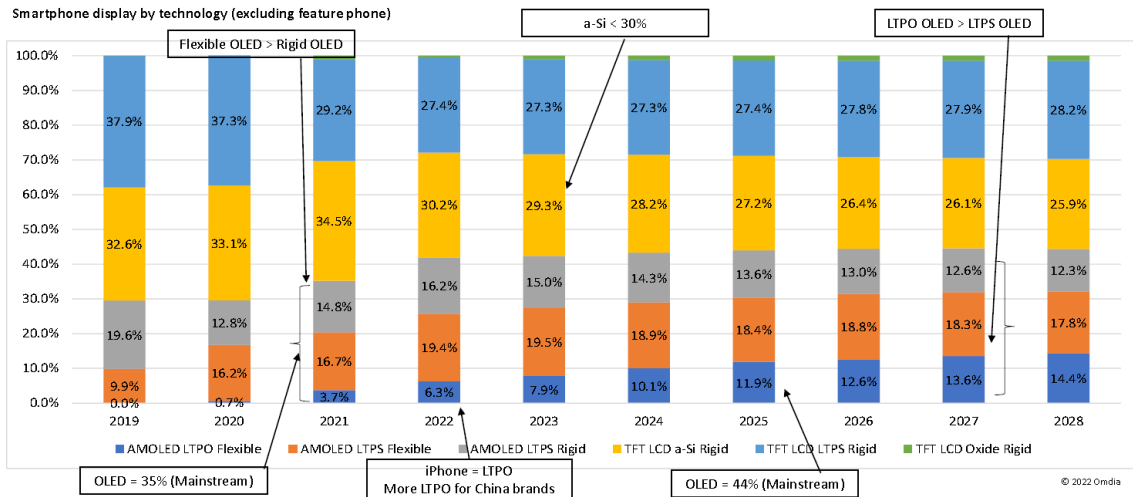
The IC industrial structure is consisted of designing, masking, wafer fabrication (foundry/IDM), gold bumping, and packaging and testing. IC design companies do not have their own production equipment. Therefore, their wafer fabrication is conducted by professional wafer foundries and followed by processes 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 the Company's products

(1) Driver IC and touch IC for portable mobile device panels:

In 2021, AMOLED, TFT a-si, and TFT LTPS panels are still the main display panels used in smartphones, but the proportion has changed dramatically. AMOLED has jumped over others to hold the largest market share in 2021, and POLED has surpassed the market share of GOLED. 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 compared with AMOLED.

Figure 5-6: Estimated shipments of OLED panels for mobile phones



Source: Omdia Top 10 Display Topics, Q1 of 2022

With the increased AMOLED production capacity and the improved yield rate of panel manufacturers in Mainland China, AMOLED has taken over the market share of TFT LCD. AMOLED has several advantages including compact, lightweight, 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. As a result, the development of AMOLED driver and touch related technologies as well as products will become particularly important and urgent.

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

The trends of using AMOLED DDIC or future integration IC in the aforementioned handheld mobile devices is clear, and the demand for their power saving and display specifications is gradually increasing. For this reason, advanced process miniaturization will be adopted to reduce IC dimension and power consumption. Additionally, this has driven IC suppliers to direct towards more advanced processes for wafer fabrication (i.e., 40-nm and 28-nm processes).

AMOLED driver ICs used in smart wearable devices, such as high-end smart watches and smart bracelets, place more emphasis on power consumption and the number of peripheral components. Since such devices are smaller in size, the internal space left for placing components becomes limited, thus fewer components will be more ideal in terms of device structure. Hence, reducing the size of display panel peripheral IC has become a new technology requirement, and the IDC IC – an integration of display driver IC and touch IC – has become a new driving force in the display driver IC market.

The Company's AMOLED wearable IDC solution features power saving, high ESD resistance, and few peripheral components. Such an IC integrates the driver display and touch functions, which uses one less FPC compared to the two-IC solution. Not only does it reduce the number of FPC layers, but also the cost due to the reduced components in the device structure. Moreover, the IC supports AMOLED LTPO, which can further reduce power consumption.

(2) Fingerprint recognition IC:

As far as technology is concerned, 3D face recognition and fingerprint recognition dominate the biometrics market.

3D face recognition: The evaluation of FRR (False Rejection Rate) and FAR (False Acceptance Rate) showed promising results in 3D face recognition, but the current 3D structured light face recognition module still requires the use of IRGS Camera+DOT Projector or CIS TOF, resulting in problems such as higher costs and few applications. That is to say, 3D face recognition can only compete with the fingerprint recognition market when there is room for cost reduction in the future. Moreover, due to the COVID-19 pandemic, people are wearing masks in many occasions, which further affects the performance of face recognition.

Fingerprint recognition: This technology will continue to dominate the biometrics recognition market with its advantages of stable performance, rapid response, lower cost, and well-developed technology. The majority of the fingerprint recognition technology market is made up of side-mounted capacitive fingerprint solution, optical in-display fingerprint solution, and ultrasonic in-display fingerprint solution.

Side-mounted capacitive fingerprint solution: It will be commercially available in more intermediate-level to high-end flagship models. Although the side-mounted capacitive fingerprint solution is lower in cost, the required algorithm is more difficult, particularly in special situations such as using it with wet fingers.

Optical in-display fingerprint solution: It is easy to operate, highly adaptable to various environment, conforming with the traditional operation habits of users, and compatible with flexible/rigid OLED display. Additionally, it continues to win the favor of intermediate-level and high-end mobile phones.

Ultrasonic in-display fingerprint solution: It does not require much detail on the fingerprints and is able to recognize the fingerprints even if they are stained or wet when using. Also, ultrasonic fingerprint recognition draws the fingerprint details in 3D image, thus the fingerprint pattern generated is safer and more accurate. However, for its higher cost and lower yield rate, it is more often applied to high-end flagship models.

(3) Physiological monitoring products:

In 2017, the U.S. FDA (Food and Drug Administration) launched the Software Precertification (Pre-Cert) Pilot Program, and joined hands with brands such as Apple, Fitbit, and Samsung, to simplify the regulatory process so as to enable the certification of smart bracelets/watches with electrocardiogram (EKG) and oxygen saturation detection functions. In the

past, products with physiological data detection and other functions were treated as medical devices. Additionally, EKG and oxygen saturation detection devices fell under the Class II medical devices within the 3-Class medical device risk scope. For such products to be marketed, a license number should be obtained by submitting an application and by going through the process of document review and certification. At the end of 2020, the Apple Watch Series 4 submitted an application and became the first Taiwan FDA-approved EKG product in Taiwan. Taiwan FDA has also taken international trend into consideration and established the Regulations for Governing the Management of Medical Device. Starting from 2021, products whose functions do not involve medical purposes such as diagnosis and treatment of specific diseases are treated as health enhancement products, and no further application is required. However, if the functions such as EKG, sleep quality, oxygen saturation, stress index are certified by the U.S. FDA, their data will offer higher reference value and provide supplementary information for medical professionals. As for spillover insurance policies, insurance companies can design the insurance premium range according to the physiological data of the insured by referring to the number of hours of exercise, heart rate, blood pressure and other values, or by setting the target preferential insured amount in order to help monitor the physiological data of sub-healthy groups. By getting the basic physiological data measured and synchronized with the cloud service, chronic disease/rural patients will be able to provide medical personnel with real-time symptoms and a basis for diagnosis. Together with mobile medical devices, the medical act of hospital visits will be simplified by implementing telemedicine/mobile medical practice. Apple, Fitbit and Samsung have cooperated with research institutes and medical institutions, and each brand develops in a different aspect according to their respective background. As a result, the EKG function has even obtained U.S. FDA approval. In Taiwan market, the surge of pandemic between 2019 and 2021, as well as the issue of “happy hypoxia”, led to the preclusive buying of oximeters, smart watches/bracelets with oxygen saturation detection function, etc., which indirectly created consumer demand.

4. Product Competition

(1) Driver IC and touch IC for portable mobile device panels:

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. The Company is one of the earliest to develop the IDC technology, with its products covering 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, the FocalTech’s IDC solution for TFT in-cell tablets is currently in the leading position in terms of technology. Since the Company has exclusive technologies and substantial production capacity as well as experience, it becomes one of the most important suppliers for the market in 2021. It is expected that the shipments will continue to grow in the future. Moreover, the Company has 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, but its market share in 2021 dropped to 73% of the total AMOLED panel shipments around the world. With the increase in shipments from panel manufacturers in Mainland China, the Company will be more proactive in developing AMOLED driver ICs in cooperation with them. For touch IC, FocalTech is one of the few manufacturers around the world who are capable of mass-producing on-cell touch ICs. The Company has entered into the Korean supply chain, which will definitely benefit the Company's revenue and profitability.

Besides smartphones and tablets, the Company 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, Silead, and Jiiov.

The Company has also been actively engaged in the development of optical in-display fingerprint recognition IC, optical components and algorithms, and ultrasonic fingerprint recognition IC. In addition to the current mainstream lens technology, FocalTech has also invested in the development of ultra-thin optical in-display fingerprint recognition technology and ultrasonic fingerprint recognition IC, in order to provide solutions for full-screen display and to compete in the market of fingerprint recognition.

(3) Physiological monitoring products:

With regards to mobile blood pressure detection devices, the blood pressure measuring of Huawei Watch D is done by pressurizing the micro air pump on the watch. At the same time, the double-layered narrow airbag on the strap is inflated to fit the arm, and it allows the device to read the fluctuations of the pulse, then measure the blood pressure value. Such a method is called the oscillometric method, which is generally used in digital sphygmomanometers. The maximum blood pressure levels that can be measured by the air pump is 230mmHg, with a pressurizing range of 300mmHg. The watch has a pressure sensor, a pressure feedback control circuit, and a low-current air channel, etc., which are used to adjust the accuracy of the air pump pressurization. Furthermore, it is advertised to remain within a maximum margin of error of +/- 3mmHg. On the other hand, ASUS VivoWatch 5 can be used to measure pulse transit time (PTT) that shows both high and low values, which are equivalent to the systolic blood pressure (SBP) and diastolic blood pressure (DBP) shown on a

sphygmomanometer. It is necessary to correct the value with the calibrated sphygmomanometer before use, as well as to pay attention to the position and tightness of the watch worn, to ensure the data accuracy. The data can only be used as a reference but not for medical purposes, and can be used as a long-term record of the change in value. Other blood pressure measurement devices such as the previously introduced Biobeat product from Israel and Freescan from Maisense Inc. in Taiwan are already available in the market.

As for arrhythmia detection, the FibrCheck app has been promoted from Europe after obtaining the CE Marking Certification in 2016. In 2018, it was announced that the app received the FDA 510(k) approval; the app detects arrhythmias using a smartphone camera and artificial intelligence. The app has been available in the U.S. market since 2019 and is used in Fibr's and Samsung's wearable products. Another mobile EKG device that employs EKG principle, AliveCor Kardia Mobile EKG is able to detect more cardiovascular symptoms than an Apple watch does. In addition to atrial fibrillation (AFib), it can also detect bradycardia with heart rates as low as 40-50 BPM and tachycardia with heart rates as high as 100-140 BPM, which allows users to detect non-symptomatic heart diseases in an early stage. Users will receive medical-grade EKG data within 30 seconds to be shared with their physicians for corresponding analysis and diagnosis. Since 2017, the Company has started to develop physiological monitoring products that can be applied for mobile phones. Among which, a quick screening software for arrhythmias, Rhythm Cam, was developed in collaboration with National Taiwan University Hospital after conducting clinical trials. In 2021, the software was registered and licensed as a medical device by the Ministry of Health and Welfare. Currently, the Company has started to carry out a large-scale community screening together with National Taiwan University Hospital using this software. The software will be a tool for early detection of heart diseases in Taiwan using an app, and is the pioneer in Asia. Apart from that, the Company has developed a mini portable, wireless and cuffless heart rate and blood pressure monitoring module and product with medical-grade accuracy, which will allow users to measure their physiological data at any time, 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	2020	2021	Q1 of 2022
R&D expenses (A)	1,636,018	2,409,274	596,435
Net operating revenue (B)	13,800,348	21,991,497	3,892,682
(A)/(B)	11.85%	10.96%	15.32%

2. Successfully developed technologies or products

After years of effort in R&D and 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
MDDI interface	Mobile phone
eDP interface	Tablet, 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 phone, NB
Multi-channel source driver	Monitor, NB
Cascade source driver	UMPC, Digital Photo Frame, Tablet, NB
Adaptive Image Enhancement(AIE)	NB, Tablet , Mobile Phone
CleverColor	Mobile Phone, NB, Tablet
White Adjustment (WA)	Mobile Phone, Tablet

(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
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 IDCIC solution	Automotive
LTPS Automotive IDCIC solution	Automotive
LTPS NB IDCIC solution	NB
AMOLED Wearable IDCIC solution	Wearable
High Frame Rate Solution	Mobile phone , Tablet
A-Si HD Sinking narrow frame COG IC solution	Mobile phone
Active stylus IDCIC solution	Tablet

(4)Fingerprint recognition IC:

R&D items or products	Applications
Coated capacitive fingerprint recognition IC	Mobile phone
Ceramic cover, glass cover 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)	NB
Optical in-display fingerprint recognition IC	Mobile phone
Development of lens, collimator optics and algorithms	Mobile phone
Ultrasonic in-display fingerprint recognition IC	Mobile phone
Automotive active capacitive fingerprint recognition IC	Automotive

(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
DeBurnIn	Mobile phone
Camera Under Panel (CUP)	Mobile phone

(4). Long, 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, 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. Develop 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 adjustment
 - 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 strong 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 modulization 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. Overview of Market, Production and Sales

(1) Market analysis

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

Unit: NT\$ thousand

Region \ Year	2020		2021	
	Sales amount	Percentage	Sales amount	Percentage
Mainland China	12,527,084	90.77%	18,929,282	86.08%
Taiwan	1,121,492	8.13%	2,856,250	12.99%
Other	151,772	1.10%	205,965	0.93%
Total	13,800,348	100%	21,991,497	100%

2. Market share

The Company'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, the Company 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 2021 exceeded 210 million units. In addition, several tablet manufacturers have largely adopted IDC into their new models and automotive display screens. It is expected that the Company's IDC shipments and market share will continue to grow in 2022 and maintain its leading position in the market.

(2) Out-cell capacitive touch IC:

As the Integrated Driver Controller (IDC) is gradually accepted by the market, the market share of out-cell touch ICs in TFT panels has dropped sharply. However, with the increase production capacity of AMOLED panels, and the fact that the Company's out-cell touch ICs for AMOLED panels have successfully entered the supply chain of Korea, the Company'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 adopting TFT LCD driver ICs has declined rapidly. For this reason, the Company has shifted its business focus to applications related to medium- and large-size panels, such as smart

speakers, notebook computers, digital cameras, and automotives, continuously directing the product structure towards 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, the Company's shipments and revenue were maintained in 2021, resulting in a fixed market share as in the past.

(4) Fingerprint recognition IC:

After years of research and development, the Company has created a full range of capacitive fingerprint products. Demand from mobile phone end-customers has grown incredibly, with the shipment of back-mounted capacitive fingerprint products reaching a record high, and side-mounted capacitive fingerprint being adopted by first-tier mobile brand customers and seizing large-volume shipments. Capacitive fingerprint products continue to penetrate towards first-tier brand customers, and the market share continues to increase. The optical in-display fingerprint products have also been successfully mass-produced with the support of customers. The Company will continue to put more efforts in product promotion, with the shipments of other human-machine interface solutions ICs, to offer customers the convenience of one-stop shop service.

3. Supply, demand and growth of the future market

(1) Driver IC and touch IC for portable mobile device panels:

For the supply of driver ICs for small- and medium-size LCD, Mainland China's driver IC manufacturers such as NewVision, ViewSil Microelectronics, Chipone, and Solomon Systech, have devoted themselves to the development of LCD driver ICs in recent years. However, their technologies are not mature enough. On the other hand, although manufacturers in Europe, the United States, 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-size LCD.

IDC products and technologies are now well developed. They have been mass-produced for both mobile phone and tablet brand customers, providing them with a lighter, more compact and better-performing device structure and an outstanding touch performance. Therefore, IDC products have maintained its high competitiveness for the future market. With IDC, the Company can expand its market share for intermediate-level products. In 2021, the Company shipped more than 210 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 the Company will continue to maintain its leading position in the market and lead the advancement of in-cell technologies in the future.

The Company's AMOLED driver ICs, whether for wearable applications or mobile phone applications, have been produced in small

quantities. The Company 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, in order to improve panel performance and yield rate.
- B. In response to the needs of the high-end wearable market, the Company will continue to develop AMOLED IDC that can reduce the weight and size of displays, and that can be applied to GOLED In-cell and POLED On-cell.

In the application of out-cell capacitive touch IC, the Company has successfully developed an AMOLED on-cell solution and promoted it to international mobile phone brands along with 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, the Company'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, producing more revenue and profitability 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. Such ICs support the various cutting sizes (track, square and round types), allowing pressing in all directions (360 degrees). Additionally, such ICs 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. The Company has its own algorithm that enables quick unlocking. 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 second were achieved, the Company maintains the leading position in gesture performance and low power consumption in the industry. At present, a number of the Company's capacitive fingerprint products have passed the Google Android Biometric Security Accreditation and the Ant PayPal Security Certification. These technologies and achievements will increase the willingness of customers to adopt them in the mature market of capacitive fingerprint recognition products. In addition, the Company will take the initiative to explore the notebook computer market and the high-end automotive market,

in order to win substantial orders from these markets.

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 every business opportunity in the market. 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 rate 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 entire mobile market. The Company's in-display optical fingerprint recognition solution has seized small-volume shipments to end customers. Apart from that, side-mounted capacitive fingerprint recognition solution has been mass-produced for various first-tier brand end-customers, with a continuously rising demand.

Since last year, the Company has continued to invest resources in the development of high-end market products, namely automotive capacitive fingerprint and ultrasonic fingerprint products. The development has promoted the Company's advantage of having a full range of fingerprint recognition product line. Furthermore, the Company continues to penetrate towards high-end products and develop its new market in automotive industry.

(3) Physiological monitoring products:

Taiwan's population over the age of 65 reached 14% in March 2018, and it has officially entered an aging society since then. It is estimated that by 2026, the population over the age of 65 will have exceeded 20% and it will then enter a super-aged society, which will increase the number of people in need of long-term care. Moreover, the gradually declining function of family care has increased the pressure on individual and family caring, social as well as economic problems may therefore arise. Common diseases of elderly 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, but the onset may occur from time to time. Therefore, regular monitoring of the patient conditions is required, so that appropriate response measures can be taken at the beginning of the onset. Even before the onset, disease prediction and warning through various indicators can help 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 will then be transmitted back to the central database for medical care. In addition, video conferencing equipment, medical monitoring, and remote monitoring interfaces can be adopted to observe patient conditions while improving the management of medical processes. Medical-related companies and various health care systems 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 the products related to the

medical equipment industry. The Company's core technology lies in the development of electronic components and algorithms. In the future, the Company will integrate biomedical health monitoring solutions with the existing optical fingerprint recognition solutions to link personal physiological information with personal data protection. In doing so, it will make users feel more secure about data safety.

4. Competitiveness: In response to the fierce competition at home and abroad, the Company has the following competitive advantages.
 - (1) Professional operations and management team: The Company's operations and management team is well trained and has rich experiences in product market strategy and positioning.
 - (2) Strong R&D capability:
 - A. The Company continues to demonstrate strong capability in technological innovation and new product development, and has taken the leading position in several areas of the market.
 - B. The technical support service bases established at home and abroad can promptly solve customers' product application and production problems, which enhances customer's efficiency in mass production.
 - (3) Reliable and close customer relationship: The Company has an excellent corporate culture, and maintains a long-term close relationship with upstream, midstream and downstream customers as well as the supply chain. When facing problems, the Company always adhere to the idea of integrity and spares no effort to help customers solve all their problems. Therefore, the Company is able to 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 R&D capability, the Company has a deep understanding of various display platforms, such as mobile phones, tablets, notebooks, digital cameras, and printers, with an aim to create more added value for customers.
 - (5) Good strategic partners: In addition to deep-rooted customer relationships, the Company actively forms strategic alliances with brand customers and platform solution providers.
5. Advantages and disadvantages of the Company'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). Additionally, the performance of domestic professional wafer fabrication, testing and package plants have reached world-class standards, thus the long-term competitiveness of professional IC design companies is promising.

- B. Integrated Driver Controller (IDC) has dominated the market, especially in the application of small-size panels, which is also the Company's current focus area. The successful experience accumulated for LCD IDC will be beneficial for the Company to expand the market of AMOLED IDC.
- C. The brand owners of flat-panel 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, the Company 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 being accused.
- E. Stay close to the market so as to grasp the market trend, and meet customer order requirements at any time. The Company is one of the few IC design companies who meet the rapidly changing market in Mainland China, which enhances the Company's position in the market.

(2) Disadvantages and corresponding countermeasures

A. Product prices are facing downward pressure

In the first quarter of 2022, the inventories of both flat-panel display manufacturers and mobile phone brand customers were at a higher level, thus the product pull-in speed was not as fast as in the past. Together with the gradual increase in production capacity of suppliers and the price wars against competitors, product prices are facing downward pressure, which seriously affects profitability.

Countermeasures:

The Company will continue to improve product manufacturing processes as well as R&D and design capabilities, and seek lower-cost wafer and package technologies to reduce manufacturing costs and increase product profitability. In response to market development trends, the Company will accelerate the development of new technologies and products to widen the technological gap with competitors in the industry. Furthermore, new markets of applications, such as wearable, smart home device, security device, and automotive, will be explored to increase product competitiveness. Other than that, the Company will take the initiative to sign production capacity/supply guarantee agreements with suppliers and customers to lock in prices between both parties, in order to avoid the double troubles of high inventory cost and declining of prices after the production capacity is increased. Also, the Company will strengthen the promotion of high-margin products so as to increase gross margin and profitability.

B. Competitors have successively engaged in the development of integrated IC solutions

Traditional display driver IC manufacturers and touch IC manufacturers are eager to give it a try. As a result, they all launched solutions for Integrated Driver Controller (IDC) to take over a share of the market, which has worsened the subsequent market competition.

Countermeasures:

The Company will 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. Hence, having recruited 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. In addition, enhancing the loyalty of talents will require the Company to pay higher labor costs.

Countermeasures:

The Company takes specific measures, such as adopting various equity retention tools, setting rules for earnings distribution to employees, implementing the product line profit-sharing system, conducting performance assessment and promotion, and offering internal/external education and training, to improve the adhesion and loyalty of employees.

D. Risk of inadequate wafer production capacity

The continuous innovation of electronic products has significantly increased the demand for semiconductor. In addition to the existing smartphone applications, automotive electronics will consume the production capacity of semiconductor 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 various wafer fabs, closely develop product application processes, and obtain certain degree of supply guarantee. In addition, spread the sources of production capacity so as to reduce the risk of insufficient production capacity from a single wafer fab.

(2) Important use and production process of major products

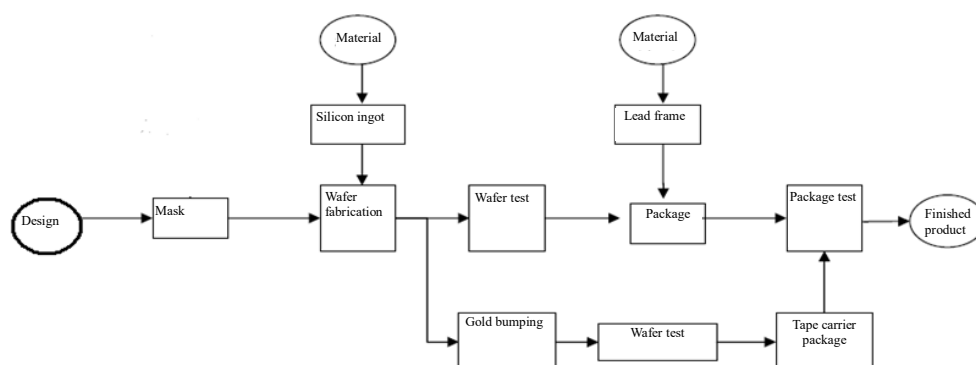
1. Important use of major products

Currently, the Company's main products 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

The Company is a professional IC design company, and its fabrication of wafers is conducted by foundries. After preliminary tests, the ICs produced by

fabs are sent to package plants for packaging or bumping processes, as well as to complete IC functional tests. The following is the flow chart showing the production 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, long-term cooperation, good supply

(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

No.	2020				2021				Q1 of 2022			
	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	2,898,657	39%	None	Supplier A	3,722,593	40%	None	Supplier A	1,262,298	37%	None
2	Supplier C	2,173,710	29%	None	Supplier C	2,996,843	32%	None	Supplier C	986,217	29%	None
3	Supplier B	1,798,039	24%	None	Supplier B	1,356,153	14%	None	Supplier B	301,372	9%	None
4									Supplier D	564,640	17%	None
	Others	606,544	8%	—	Others	1,320,075	14%	—	Others	256,630	8%	—
	Net purchases	7,476,950	100%	—	Net purchases	9,395,664	100%	—	Net purchases	3,371,157	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

No.	2020				2021				Q1 of 2022			
	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	2,060,074	15%	None	Company B	2,943,186	13%	None	Company D	822,760	21%	None

No.	2020				2021				Q1 of 2022			
	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 G	1,666,900	12%	None	Company C	2,859,803	13%	None	Company F	445,087	11%	None
3	Company E	1,539,211	11%	None	Company A	1,905,534	9%	None				None
4	Company D	1,166,796	8%	None	Company G	2,328,269	11%	None				None
	Others	7,367,367	54%	—	Others	11,954,705	54%	—	Others	2,624,835	68%	—
	Net sales	13,800,348	100%	—	Net sales	21,991,497	100%	—	Net sales	3,892,682	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; Unit: NT\$ thousand

Year	2020			2021		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Major product						
Human-machine interface application related ICs	—	518,318	10,617,261	—	572,513	12,342,771

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; Unit: NT\$ thousand

Year	2020				2021			
	Domestic sales		International sales		Domestic sales		International sales	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Major product								
Human-machine interface application related ICs	13,810	555,576	510,052	13,244,772	19,107	870,582	510,044	21,120,915

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

April 30, 2022; Unit : person(s)

Year		2020	2021	As of April 30, 2022
No. of employees	Manager	15	18	19
	Production line	—	—	—
	Regular staff	787	850	851
	Total	802	868	870
Average age		35	36	36
Average year of service		5.1	5.14	5.3
Education background	Doctor	1%	1%	1%
	Master	46%	46%	46%
	Junior college	52%	52%	52%
	Senior high	1%	1%	1%
	Under Senior	—%	—%	—%

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 entrusts 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' adherence towards the organization. Subsidiaries are handled in accordance with local laws and regulations.

(2) Advanced study 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 2021 are as follows:

Type of training	No. of people	Costs	Class hours
Management training course	417	1,856,596	4,449
Professional training course	927	563,797	3,276
General training course	312	34,932	1,011
New employee orientation	190	0	3,609
Total	1,846	2,455,325	12,345

(3) Retirement system and its implementation status

To secure the retirement life of employees, and improve the spirit of on-the-job service, 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. Information security management

(1) Information security risk management framework

The Company's Information Management Division is responsible for the ultimate effectiveness and efficiency of information security; formulation, promotion and implementation of information security policies; and employees' awareness-raising on information security. Additionally, the division reports regularly to the Chairman on information security operations, evaluates the effectiveness of internal controls over the Company's information operations, and ensures the confidentiality, integrity and availability of information. Other than that, a "proactive information security detection and defense" framework is established to reduce the risk of unauthorized use, destruction or leakage of information.

The Information Management Division reports to the Chairman on information under its purview including the integration of information system and information application functions. As for risk assessment or specific issues, the Information Management Division will gather relevant units, including legal affairs, human resources, R&D, and auditing, for a joint discussion as appropriate.

(2) Information security policies

1. Scope and Objective: To provide the information security implementation principles for FocalTech Group's employees so as to achieve the three major objectives of confidentiality, integrity and availability.
2. Responsible unit and detection procedure: The top-level manager is the responsible person of the information unit. Each year, the information unit internally identifies important risk factors based on risk assessment. These important risk factors are included in the information unit's promotion work plan for improvement so as to reduce information security risks. Additionally, they are regularly compiled and submitted to the Sustainable Development Group. After consolidating other risks, the Group reports these risks factors to the Board of Directors according to their materiality level.
3. Promotion of information security work
 - (1) Arrange the annual information security work plan for the following year.
 - (2) Execute the formulated plan or instructed programs, specifically review the plan

after execution, and keep records for future improvement and experience transmission.

4. Policies and operations

Policy	Description/Purpose	Basis of Operation
Password/Passphrase protection	Set password changing rules in the specified system so as to prevent unauthorized use and leakage of information.	Regulations Governing the Operations of Online and Electronic Media
Acceptable use method	Specify the acceptable and unacceptable practices for the use of company information and hardware resources so as to protect the security of company information.	Personal Computer Software Management Regulations
Email security	Specify rules for the use of email so as to avoid passive or active information leakage.	Regulations Governing the Operations of Online and Electronic Media
Access control	Establish control over information access as well as information processing facilities and procedures according to information security requirements so as to prevent any unauthorized access or destruction of information from the system.	Regulations Governing the Operations of Online and Electronic Media
Incident response	Formulate operation procedures and drill requirements for incident response, and examine them from time to time so as to reduce the damage caused by accidental information security incidents.	Information System Emergency Response Procedures
The security of personal devices	Specify the principles and practices for the use of personal devices, including regulations for the use of network.	Regulations Governing the Operations of Online and Electronic Media
The security of server room and hardware	Specify the security management related rules for the access and uninterruptible power supply of the server room.	Regulations Governing the Operations of Online and Electronic Media

5. Awareness raising on information security

- (1) The managerial level personnel regularly review, formulate, approve, and publish information security policies and raise the employees' awareness.
- (2) Enhance the information security awareness of colleagues through new employee training, E-learning, information security awareness-raising activities, and social engineering.

(3) Specific information security management programs

Program	Specific Management Measures
Firewall protection	Set connection rules for firewall to ensure the blockage of malicious attacks.
	Users are required to additionally apply for an approval for special connection.
Mechanism controlling user access to the Internet	Control user's online behavior with automatic web protection system.
	Automatically filter the websites containing Trojan horse virus, ransomware or malware, which users may be linked to on the Internet.
Information leakage protection	Data access and leakage protection control using DLP.
Anti-virus software	Reduce the chance of virus intrusion by adopting an anti-virus software that updates virus patterns automatically.
Operation system update	The operation system is updated automatically. If the system is not updated for any reason, the Information Management Division will assist in updating it.
Email security control	Adopt the approach of automatic email scanning threat protection to block access to unsafe attachments, phishing emails, and junk mails before users receive the emails, and to extend the protection against malicious links.
	When a personal computer receives an email, the anti-virus software will also scan for unsafe attachments.
Data backup mechanism	Daily backups are set for the important information system databases.
Important document server management	Important files of all the Company's departments are stored in the server and generally kept by the information unit as a backup.

(4) Information Security Investment Resources

1. Network hardware such as firewalls, email security controls, spam filtering, online behavior controls, etc.
2. Software systems such as data loss prevention, backup management, antivirus protection, and VPN control.
3. Daily status checks of each information security system; execution of regular backup and off-site storage on backup media; weekly review of abnormal access and information security notifications, at least two information security awareness-raising and education courses per year; annual execution of system disaster recovery execution drills, annual internal audits of information cycle; CPA auditing, etc.
4. The information security staff includes an information security supervisor who holds a concurrent post at the Company and an information security officer. They are responsible for planning, design and integration of the information security framework, information security maintenance and monitoring, information security incident response and investigation, and information security policy review and revision.

(5) The losses or possible effects incurred due to major information security incidents, as well as the corresponding countermeasures, in the most recent year

and as of the publication date of the annual report. If it cannot be estimated, the reason shall be stated: None.

7. Material Contracts:

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

VI. Financial Status

1. Condensed Balance Sheets, Statements of Comprehensive Income, and CPA Audit Opinions for the Most Recent 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, 2022
		2017	2018	2019	2020	2021	
Current assets		8,173,173	8,033,023	8,531,407	8,970,922	18,125,416	19,226,351
Property, plant and equipment		1,408,474	1,394,372	1,361,478	1,321,940	2,468,605	2,510,480
Intangible assets		3,447,982	1,386,266	1,336,457	1,300,470	1,284,496	1,280,692
Other assets		514,439	486,460	373,627	751,721	3,453,417	3,479,107
Total assets		13,544,068	11,300,121	11,602,969	12,345,053	25,331,934	26,496,630
Current liabilities	Before distribution	2,543,857	2,879,228	3,412,424	3,956,253	6,415,495	6,564,519
	After distribution	2,693,857	3,029,228	3,562,424	4,656,253	Note 1	
Non-current liabilities		256,847	343,278	462,375	577,340	5,268,477	5,284,028
Total liabilities	Before distribution	2,800,704	3,222,506	3,874,799	4,533,593	11,683,972	11,848,547
	After distribution	2,950,704	3,372,506	4,024,799	5,233,593	Note 1	
Equity attributable to owners of the parent							
Share capital		2,983,700	2,987,432	2,996,759	2,103,532	2,162,367	2,164,347
Capital surplus		6,654,876	6,551,481	5,145,377	4,843,642	6,062,869	6,080,297
Retained earnings	Before distribution	1,245,139	(1,248,601)	(183,307)	1,012,301	6,425,625	7,154,888
	After distribution	1,245,139	0	0	88,756	Note 1	
Other Equity		44,363	147,164	5,807	(122,316)	(1,025,199)	(771,147)
Treasury share		(191,998)	(393,203)	(267,158)	(24,316)	0	0
Non-controlling interest		7,284	33,342	30,692	(1,383)	22,300	19,698
Total shareholders' equity	Before distribution	10,743,364	8,077,615	7,728,170	7,811,460	13,647,962	14,648,083
	After distribution	10,593,364	7,927,615	7,578,170	7,111,460	Note 1	

Data Source: Financial statements audited and attested or reviewed by CPAs.

Note 1: Earnings for 2021 have not yet been resolved and distributed by the shareholders' meeting.

2. Individual Financial Statement - IFRS

Unit: NT\$ thousand

Item	Year	Financial information for the most recent five years(note 1)				
		2017	2018	2019	2020	2021
Current assets		2,827,100	1,789,171	2,240,119	5,449,676	14,058,343
Property, plant and equipment		27,744	30,753	19,408	15,226	1,197,523
Intangible assets		3,350,278	1,328,629	1,312,375	1,296,766	1,281,449
Other assets		5,663,752	5,575,173	5,363,643	4,845,714	7,166,436
Total assets		11,868,874	8,723,726	8,935,545	11,607,382	23,703,751
Current liabilities	Before distribution	972,667	505,919	1,052,458	3,225,284	4,818,835
	After distribution	1,122,667	655,919	1,202,458	3,925,284	Note 1
Non-current liabilities			173,534	185,609	569,255	5,259,254
Total liabilities	Before distribution	1,132,794	679,453	1,238,067	3,794,539	10,078,089
	After distribution	1,282,794	829,453	1,388,067	4,494,539	Note 1
Equity attributable to owners of the parent						
Share capital			2,987,432	2,996,759	2,103,532	2,162,367
Capital surplus			6,551,481	5,145,377	4,843,642	6,062,869
Retained earnings	Before distribution	1,245,139	(1,248,601)	(183,307)	1,012,301	6,425,625
	After distribution	1,245,139	0	0	88,755	Note 1
Other Equity			147,164	5,807	(122,316)	(1,025,199)
Treasury share			(393,203)	(267,158)	(24,316)	0
Non-controlling interest			—	—	—	—
Total shareholders' equity	Before distribution	10,736,080	8,044,273	7,697,478	7,812,843	13,625,662
	After distribution	10,586,080	7,894,273	7,547,478	6,889,297	Note 1

Data Source: Financial statements audited and attested by CPAs.

Note 1: Earnings for 2021 have not yet been resolved and distributed 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 of Q1 of 2022
	2017	2018	2019	2020	2021	
Operating revenue	10,798,334	9,919,368	9,160,261	13,800,348	21,991,497	3,892,682
Operating gross profit	2,270,185	1,562,300	1,993,200	3,428,776	10,729,399	1,541,597
Operating profit or loss	162,215	(675,056)	(340,656)	1,030,737	7,130,466	672,736
Non-operating income and expenses	41,518	(1,828,593)	160,295	126,360	472,604	222,147
Profit before tax	203,733	(2,503,649)	(180,361)	1,157,097	7,603,070	894,883
Net profit of continued operations for the year	(103,210)	(2,488,118)	(205,680)	983,458	6,096,850	722,586
Loss of discontinued operations	—	—	—	—	—	—
Net profit (loss) for the year	(103,210)	(2,488,118)	(205,680)	983,458	6,096,850	722,586
Other comprehensive income for the year (profit after tax)	(373,132)	107,575	(141,671)	(131,355)	(91,765)	142,783
Total comprehensive income for the year	(476,342)	(2,380,543)	(347,351)	852,103	6,005,085	865,369
Net profit attributable to owners of the parent	(79,680)	(2,451,642)	(175,249)	1,011,992	6,112,935	729,263
Net profit attributable to non-controlling interest	(23,530)	(36,476)	(30,431)	(28,534)	(16,085)	(6,677)
Comprehensive income attributable to owners of the parent	(452,812)	(2,346,299)	(315,164)	884,178	6,024,418	867,971
Comprehensive income attributable to non-controlling interest	(23,530)	(34,244)	(32,187)	(32,075)	(19,333)	(2,602)
Earnings per share	(0.28)	(8.66)	(0.63)	3.97	30.23	3.57

Data Source: Financial statements audited and attested 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				
		2017	2018	2019	2020	2021
Operating revenue		5,197,671	4,298,242	2,901,766	11,410,350	18,335,785
Operating gross profit		1,244,047	679,540	956,905	2,598,804	9,503,846
Operating profit or loss		303,405	(195,555)	70,632	1,227,794	7,730,774
Non-operating income and expenses		(347,946)	(2,278,218)	(231,226)	(51,815)	(254,848)
Profit (loss) before tax		(44,541)	(2,473,773)	(160,594)	1,175,979	7,475,926
Net profit of continued operations for the year		(79,680)	(2,451,642)	(175,249)	1,011,992	6,112,935
Loss of discontinued operations		—	—	—	—	—
Net profit (loss) for the year		(79,680)	(2,451,642)	(175,249)	1,011,992	6,112,935
Other comprehensive income for the year (profit after tax)		(373,132)	105,343	(139,915)	(127,814)	(88,517)
Total comprehensive income for the year		(452,812)	(2,346,299)	(315,164)	884,178	6,024,418
Earnings per share		(0.28)	(8.66)	(0.63)	3.97	30.23

Data Source: Financial statements audited and attested 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
2017	Deloitte & Touche	CPA Shiow-Ming Shue, CPA Shu-Wan Lin	Unqualified opinion
2018	Deloitte & Touche	CPA Shiow-Ming Shue, CPA Shu-Wan Lin	Unqualified opinion
2019	Deloitte & Touche	CPA Shiow-Ming Shue, CPA Chih-Ming Shao	Unqualified opinion
2020	Deloitte & Touche	CPA Shiow-Ming Shue, CPA Chih-Ming Shao	Unqualified opinion
2021	Deloitte & Touche	CPA Shiow-Ming Shue, CPA Chih-Ming Shao	Unqualified opinion

2. Financial Analysis for the Most Recent Five Years

(1) Consolidated Financial Statements - IFRS

Analytical items (note 2)		Year	Financial analysis for the most recent five years					Financial Information as of March 31, 2022
		2017	2018	2019	2020	2021		
Financial Structure (%)	Debt-asset Ratio	20.68	28.52	33.39	36.72	46.12	44.72	
	Ratio of Long-term Capital to Property, Plant and Equipment	780.48	601.53	599.34	634.69	765.38	793.17	
Solvency (%)	Current Ratio	321.29	279.00	250.01	226.75	282.53	292.88	
	Quick Ratio	212.82	202.62	195.64	180.46	220.47	203.42	
	Interest Coverage Ratio	2,205.55	(318,430.41)	(15,556.34)	57,695.67	60,061.12	23,736.63	
Operating Ability (Note 1)	Receivables Turnover Rate (times)	8.33	8.85	7.62	9.04	9	5.61	
	Average Collection Days for Receivables	43.81	41.24	47.89	40.37	40.55	65.05	
	Inventory Turnover Rate (times)	3.27	3.48	3.88	6.24	4.04	1.95	
	Payables Turnover Rate (times)	5.98	5.69	3.97	5.58	5.18	3.56	
	Average Days of Sale	111.62	104.88	94	58.49	90.34	187.09	
	Property, Plant and Equipment Turnover Rate (times)	14.2	7.08	6.65	10.29	11.6	6.25	
	Total Asset Turnover Rate (times)	0.76	0.8	0.8	1.15	1.17	0.6	
Profitability	Return on Assets (%)	(0.67)	(20.02)	(1.79)	8.23	32.42	2.80	
	Return on Equity (%)	(0.72)	(26.11)	(2.23)	13.05	57.03	5.16	
	Ratio of Income Before Tax to Paid-in Capital (%)	6.83	(83.81)	(6.02)	55.01	351.61	41.35	
	Profit Margin Before Tax(%)	(0.96)	(25.08)	(2.25)	7.13	27.72	18.56	
	Earnings per share(NT\$)	(0.28)	(8.66)	(0.63)	3.97	30.23	3.57	
Cash Flow	Cash Flow Ratio(%)	17.31	(3.73)	29.22	22.31	38.23	(32.5)	
	Cash Flow Adequacy Ratio (%)	267.18	131.81	170.34	183.83	91.01	32.03	
	Cash Flow Reinvestment Ratio (%)	3.18	(3.51)	11.8	9.81	9.66	(11.11)	
Leveraging	Operating Leverage	2.39	0.64	0.26	1.28	1.04	1.11	
	Financial Leverage	1.06	1	1	1	1	1.01	

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

- Debt-asset Ratio: Primarily due to the increase in non-current liabilities.
- Ratio of Long-term Capital to Property, Plant and Equipment: Primarily due to the increases in non-current liabilities and shareholders' equity.
- Current Ratio and Quick Ratio: Primarily due to the increase in current assets in 2021.
- Inventory Turnover Rate: Primarily due to the increase in inventory in 2021.
- Average Days of Sale: Primarily due to the decrease in inventory turnover rate.
- 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 income the period was primarily due to the increases in operating revenue and gross profit in 2021.
- Cash Flow Ratio: Primarily due to the increase in net cash flow from operating activities in 2021.
- Cash Flow Adequacy Ratio: Primarily due to increases in capital expenditures, inventory, and cash dividend in 2021.

Data Source: Financial reports audited and attested or reviewed by CPAs.

Note 1: The above operating ability 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)		Year	Financial analysis for the most recent five years				
		2017	2018	2019	2020	2021	
Financial Structure (%)	Debt-asset Ratio	9.54	7.79	13.86	32.69	42.52	
	Ratio of Long-term Capital to Property, Plant and Equipment	39,274.10	26,721.97	40,617.72	55,051.22	1,577	
Solvency (%)	Current Ratio	290.65	353.65	212.85	168.97	291.74	
	Quick Ratio	198.21	246.14	133.77	130.89	234.77	
	Interest Coverage Ratio	(11,007.48)	(315,835.25)	(13,840.45)	62,255.34	92,054.81	
Operating Ability	Receivables Turnover Rate (times)	5.56	5.45	5.02	11.49	8.42	
	Average Collection Days for Receivables	65.59	66.93	72.78	31.76	43.35	
	Inventory Turnover Rate (times)	4.13	5.2	3.37	9.62	4.56	
	Payables Turnover Rate (times)	5.52	7.05	3.86	6.68	3.71	
	Average Days of Sale	88.29	70.25	108.2	37.95	79.96	
	Property, Plant and Equipment Turnover Rate (times)	183.72	146.96	115.7	658.91	30.24	
	Total Asset Turnover Rate (times)	0.42	0.42	0.33	1.11	1.04	
Profitability	Return on Assets (%)	(0.65)	(23.8)	(1.97)	9.87	34.66	
	Return on Equity (%)	(0.72)	(26.11)	(2.23)	13.05	57.03	
	Ratio of Income Before Tax to Paid-in Capital (%)	(1.49)	(82.81)	(5.36)	55.9	345.73	
	Profit Margin Before Tax(%)	(1.53)	(57.04)	(6.04)	8.87	33.34	
	Earnings per share(NT\$)	(0.28)	(8.66)	(0.63)	3.97	30.23	
Cash Flow	Cash Flow Ratio(%)	36.31	40.9	38.65	35.42	61.72	
	Cash Flow Adequacy Ratio (%)	3.98	3.25	1.81	1.84	1.21	
	Cash Flow Reinvestment Ratio (%)	2.14	0.82	3.9	14.06	13.03	
Leveraging	Operating Leverage	1.31	0.38	2.09	1.07	1.02	
	Financial Leverage	1.00	1.00	1.02	1.00	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: Primarily due to the increase in current liabilities in 2021.
2. Ratio of Long-term Capital to Property, Plant and Equipment: Primarily due to the acquisition of office buildings in 2021.
3. Current Ratio and Quick Ratio: Primarily due to the increase in current assets in 2021.
4. Interest Coverage Ratio: Primarily due to the increases in net income before income tax and interest expenses in 2021.
5. Receivable Turnover Rate, Average Collection Days for Receivables: Primarily due to the increase in accounts receivable.
6. Inventory Turnover Rate, Payables Turnover Rate, Average Days of Sale: Primarily due to the increases in inventory and accounts payable.
7. Property, Plant and Equipment Turnover Rate: Primarily due to the acquisition of office buildings in 2021.
8. 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 income for the period was primarily due to the increases in revenue and gross profit in 2021.
9. Cash Flow Ratio: Primarily due to the increase in net cash flow from operating activities in 2021.
10. Cash Flow Adequacy Ratio: Primarily due to the increases in capital expenditures, inventory and cash dividend in 2021.

Data Source: Financial reports audited and attested 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 = $(\text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses}) / \text{Current Liabilities}$

(3) Interest Coverage Ratio = $\text{Income Before Income Tax and Interest Expenses} / \text{Interest Expenses for the Period}$

3. Operating Ability

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

(2) Average Collection Days for Receivables = $365 / \text{Receivables Turnover Rate}$

(3) Inventory Turnover Rate = $\text{Cost of Goods Sold} / \text{Average Inventory}$

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

(5) Average Days of Sale = $365 / \text{Inventory Turnover Rate}$

(6) Fixed Assets Turnover Rate = $\text{Net Sales} / \text{Average Net Worth of Fixed Assets}$

(7) Total Asset Turnover Rate = $\text{Net Sales} / \text{Average Total Assets}$

4. Profitability

(1) Return on Assets = $[\text{Net Income} + \text{Interest Expenses} \times (1 - \text{Tax Rate})] / \text{Average Total Assets}$

(2) Return on Shareholders' Equity = $\text{Net Income} / \text{Average Net Shareholders' Equity}$

(3) Profit Margin Before Tax = $\text{Net Income} / \text{Net Sales}$

(4) Earnings per Share = $(\text{Profit after tax} - \text{Dividends on Preferred Shares}) / \text{Weighted Average Number of Issued Shares (Note 4)}$

5. Cash Flow

(1) Cash Flow Ratio = $\text{Net Cash Flow from Operating Activities} / \text{Current Liabilities}$

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

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

6. Leveraging:

(1) Operating Leverage = $(\text{Net Operating Revenue} - \text{Variable Operating Costs and Expenses}) / \text{Operating Income (Note 6)}$

(2) Financial Leverage = $\text{Operating Income} / (\text{Operating Income} - \text{Interest Expenses})$

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 2021 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 of the Company and determined to be correct and accurate. We hereby submit this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To

2022 Shareholders' Regular Meeting, FocalTech Systems Co., Ltd.

Chairperson of Audit Committee: Chan-Jane Lin



April 25, 2022

4. The financial reports of the Company for the most recent years have been audited and attested by CPA: Please refer to attachment 1.
5. The individual financial reports of the Company for the most recent years have been audited and attested by CPAs: 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, in the case of any insolvency, 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	2021	2020	Variation	
				Amount	%
Current assets		18,125,416	8,970,922	9,154,494	102
Fund and investments		591,183	482,636	108,547	22
Property, plant and equipment		2,468,605	1,321,940	1,146,665	87
Intangible assets		1,284,496	1,300,470	(15,974)	(1)
Other assets		2,862,234	269,085	2,593,149	964
Total assets		25,331,934	12,345,053	12,986,881	105
Current liabilities		6,415,495	3,956,253	2,459,242	62
Non-current liabilities		5,268,477	577,340	4,691,137	813
Total liabilities		11,683,972	4,533,593	7,150,379	158
Share capital		2,162,367	2,103,532	58,835	3
Capital surplus		6,062,869	4,843,642	1,219,227	25
Retained earnings		6,425,625	1,012,301	5,413,324	535
Other Equity		(1,025,199)	(122,316)	(902,883)	738
Treasury share		0	(24,316)	24,316	(100)
Non-controlling interest		22,300	(1,383)	23,683	(1,712)
Total shareholders' equity		13,647,962	7,811,460	5,836,502	75

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

1. Increase in Current Assets: Primarily due to the increases in cash and cash equivalents, accounts receivable, inventory, and other financial assets.
2. Increase in Funds and Investments: Primarily due to the increase in financial product investments and valuation gains.
3. Increase in Property, Plant and Equipment: Primarily due to the increase in number of office buildings acquired.
4. Increase in Other Assets: Primarily due to the increase in refundable deposits.
5. Increase in Current Liabilities: Primarily due to the increases in accounts payable and income tax liabilities.
6. Increase in Non-current Liabilities: Primarily due to the increase in guarantee deposits received.
7. Increase in Capital surplus: Primarily due to the issuance of new restricted employee shares.
8. Increase in Retained Earnings: Primarily due to the profit gained in 2021.
9. Decrease in Other Equity: Primarily due to the issuance of new restricted employee shares.
10. Decrease in treasury share: Primarily due to the recovery and cancellation of treasury share.
11. Increase in Non-controlling Interest: Primarily due to the capital increase of the Company's subsidiaries in 2021.

2. Financial Conditions

Unit: NT\$ thousand

Item \ Year	2021	2020	Variation	
			Amount	%
Operating revenue	21,991,497	13,800,348	8,191,149	59
Operating gross profit	10,729,399	3,428,776	7,300,623	213
Net operating profit or loss	7,130,466	1,030,737	6,099,729	592
Non-operating income and expenses	472,604	126,360	346,244	274
Profit before tax	7,603,070	1,157,097	6,445,973	557
Net profit for the year	6,096,850	983,458	5,113,392	520
Other comprehensive income for the year (profit after tax)	(91,765)	(131,355)	39,590	(30)
Total comprehensive income for the year	6,005,085	852,103	5,152,982	605
Net profit (loss) attributable to owners of the parent	6,112,935	1,011,992	5,100,943	504
Comprehensive income attributable to owners of the parent for the year	6,024,418	884,178	5,140,240	581

The analyses for the financial ratio differences of 20% or more between the latest two periods, amounting to over NT\$10 million are as follows:

1. Increases in Operating Revenues, Operating gross profit, and Net Operating Profit: Primarily due to the effect of a price increase in 2021.
2. Increase in Non-operating Income and Expenses: Primarily due to valuation gain on financial product investments.
3. Increases in Profit Before Tax, Net Profit for the Year, Total Comprehensive Income for the Year, and Net Profit and Total Comprehensive Income Attributable to Owners of the Company: Primarily due to the significant increases in operating revenue and gross profit in 2021.

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	Wealth management
4,011,682	4,972,552	(2,487,960)	(39,286)	6,456,988	—	—

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

1. Operating Activities: Net cash inflow of NT\$4,972,552,000 was primarily due to the increase in net profit of the year.
2. Investing Activities: Net cash outflow of NT\$6,393,546,000 was primarily due to the acquisition of office buildings, and the increases in other financial assets and refundable deposits.
3. Financing Activities: Net cash inflow of NT\$3,905,586,000 was primarily due to the increase in guarantee deposits received.

- (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\$649,268,000 in 2021 was primarily due to operating losses by Company-owned subsidiaries in 2021. 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
 - (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 current deposit and structured investment products with floating rates. The Consolidated Company's fixed 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, 2021 and 2020 associated with interest rate fluctuations, for every 0.25% increase in market interest rate, profit before tax for financial assets with floating rates would increase by NT\$10,604,000 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 due to 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. In addition, the Group is primarily affected by fluctuations in the exchange rate with the U.S.

dollar (USD). Based on the sensitivity analysis of the Group's foreign exchange rate risk for the U.S. dollar currency as of December 31, 2021, 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 currency, is shown in the table below:

Unit: NT\$ thousand

	Impact of USD
Profit and Loss and Equity	271,944

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 close contact 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 cash 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) Impacts of the Developments in Science and Technology (including information security risk) as well as Industrial Change on the Company's Financial Operations, 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. Furthermore, with the globalization of the Internet, the network information security issue has become a major risk faced by corporates, particularly the IC design industry. In addition to showcasing its intellectual achievements, a corporate in the industry also needs to prevent the outflow of its skills and technologies. The Company has formulated information security policies and specific management programs for information security operations, such as strengthening prevention and protection measures to avoid internal and external unauthorized access and virus intrusion, refining backup policies and conducting recovery testing and drills, and monitoring abnormalities, to implement information security risk management. By protecting the its business secrets and intellectual property, the Company is able to achieve the goals of sustainable business development.

(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's products are primarily sold through dealers, mobile phone module manufacturers, and panel manufacturers, and to major mobile phone brands in Japan besides the mobile phone market in Mainland China. By selling its products through dealers, module, and panel manufacturers, the Company has gained a wide range of end-user customers. In 2021, 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) Other Important Risks and Mitigation Measures Being or to Be Taken: None.

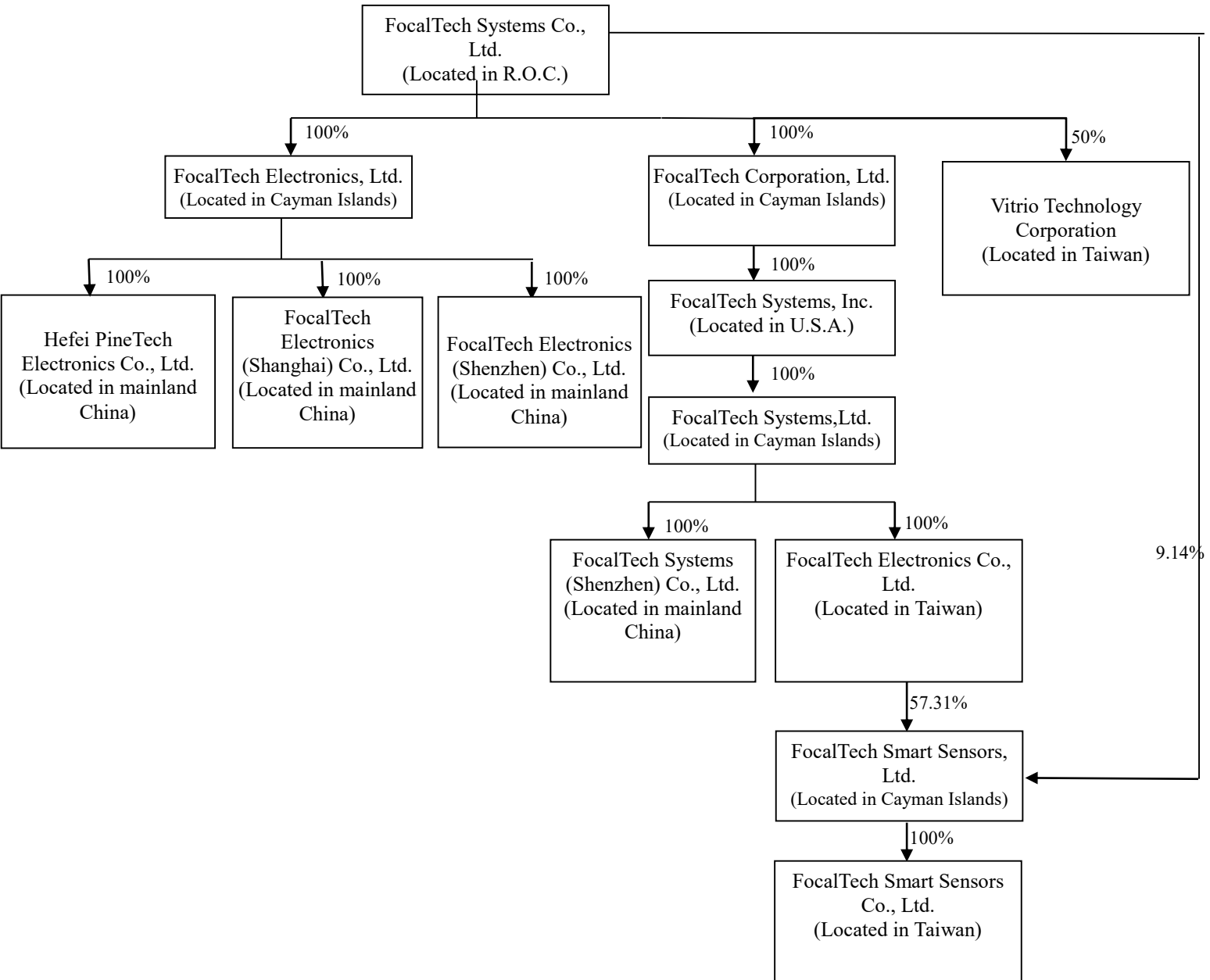
7. Other Important Matters: None.

VIII. Special Disclosure

1. Information regarding the Company's Affiliates

(1) Chart showing the Company's Affiliates

December 31, 2021



(2) Profiles of the Company's Affiliates

Dec. 31, 2021; Unit: NT\$ thousand/Foreign currency: thousand

Name of Enterprise	Date of establishment	Address	Paid-in Capital	Major operations or production items
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	Mainland China	USD 37,000	Design and R&D of consumer electronic chips
FocalTech Electronics (Shenzhen) Co., Ltd.	March 2015	Mainland China	USD 2,300	R & D, production management and sales of consumer electronic chips
FocalTech Electronics (Shanghai) Co., Ltd.	November 2014	Mainland China	USD2,000	Sales service of consumer electronic chips
FocalTech Electronics Co., Ltd.	June 2006	Taiwan	TWD 20,000	Customs declaration for import and export of consumer electronic chips
FocalTech Smart Sensors Co., Ltd.	July 2016	Taiwan	TWD87,085	R & D, production management and sales of consumer electronic chips
Hefei PineTech Electronics Co., Ltd.	July 2015	Taiwan	RMB30,000	R & D and sales of consumer electronic chips
FocalTech Smart Sensors, Ltd.	December 2017	Cayman Islands	USD13,618	Investment holding
Vitrio Technology Corporation	September 2020	Taiwan	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 Covered by the Business Operated by Affiliates Overall

The businesses of the Company and its affiliates include IC production management, design, R&D, sales, and investment. The businesses of the Company's affiliates as a whole include R&D, 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, 2021

Name of Enterprise	Title	Name or representative	Status of shareholding	
			Number of shares	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 Hsiao-Peng Kuo	—	—
FocalTech Electronics Co., Ltd.	Chairman	Genda Hu	—	—
FocalTech Smart Sensors Co., Ltd.	Chairman	Pei-Tzu Wu	—	—
Hefei PineTech Electronics Co., Ltd.	Chairman President Director Director Supervisor	Wei-Ching Hou Wei-Ching Hou Chien-Ping Kuo Lien-Kuo Wang Hsiao-Peng Kuo	—	—
FocalTech Smart Sensors, Ltd.	Chairman	Pei-Tzu Wu	—	—
	Director	GWAA LLC(Designated representative :Pei-Tzu Wu)	375,000	1.14%
	Director	FocalTech Electronics Co., Ltd. (Designated representative : Pei-Hsin Wu)	18,813,050	57.31%
	Director	FocalTech Systems Co., Ltd. (Designated representative : Jui-Cheng Hsu)	3,000,000	9.14%
	Director	Chou-Hao Tsai	—	—
	Director	Yen Kan	—	—
Vitrio Technology Corporation	Director	FocalTech Electronics, Ltd.	—	—
	Chairman	Ming-Tuo Yu	—	—
	Director	Jui-Cheng Hsu	—	—
	Director	Yu-Hsuan Lin	—	—
	Director	Pei-Tzu Wu	—	—
Supervisor	George Chang	—	—	
Supervisor	Wei-Chieh Chang	—	—	

(6) Business Operations of Each Affiliate:

Dec. 31, 2021; Earnings per share are expressed in NT\$, 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\$) (after tax)
FocalTech Corporation, Ltd.	7,059,264	2,508,308	7,717	2,500,591	-	(6,767)	(660,388)	Note 1
FocalTech Electronics, Ltd.	2,768	2,007,532	463,741	1,543,791	158,771	(195,219)	15,502	Note 1

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\$) (after tax)
FocalTech Smart Sensors, Ltd.	376,952	66,467	-	66,467	42,014	39,296	(47,944)	(1.46)
FocalTech Systems, Inc.	2,831,466	2,599,000	286,865	2,312,135	21,287	599	(653,934)	Note 1
FocalTech Systems, Ltd.	646,330	2,894,455	512,405	2,382,050	6,467	(402,786)	(654,693)	Note 1
FocalTech Systems (Shenzhen) Co., Ltd.	1,024,164	1,492,263	292,426	1,199,837	702,122	(126,909)	(236,158)	Note 2
FocalTech Electronics (Shenzhen) Co., Ltd.	63,664	1,852,684	1,595,582	257,102	3,551,251	199,730	199,146	Note 2
FocalTech Electronics (Shanghai) Co., Ltd.	55,360	51,094	21,569	29,525	111,205	5,270	(6,034)	Note 2
FocalTech Electronics Co., Ltd.	20,000	110,304	-	110,304	1,657	63	(29,260)	Note 1
FocalTech Smart Sensors Co., Ltd.	87,085	13,989	303,338	(289,349)	15,531	(94,880)	(87,310)	Note 1
Hefei PineTech Electronics Co., Ltd.	130,245	286,532	57,176	229,356	54,250	(20,723)	13,371	Note 2
Vitrio Technology Corporation	4,970	2,592,413	1,762,500	829,913	(98,405)	(3,333,005)	(3,341,193)	(11.76)

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 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, 2021, 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



February 23, 2022

Independent Accountants' Report

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

Introduction

We have audited the accompanying consolidated balance sheets of FocalTech Systems Co., Ltd. and its subsidiaries (the "Group") as of December 31, 2021 and 2020, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, 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 exists the pressure to achieve the financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is listed in the Key Audit Matters in 2021.

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

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

1. We evaluated the design of internal control related to sales and collection cycle and the implement of the internal control.
2. We obtained customer ranking list in 2021, 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.

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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, 2021 and 2020 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

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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, 2021 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
February 23, 2022

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)

ASSETS	2021		2020	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	\$ 6,456,988	26	\$ 4,011,682	33
Financial assets at fair value through profit or loss - current (Note 4 and 7)	119,218	1	-	-
Financial assets at fair value through other comprehensive income - current (Note 4 and 8)	55,590	-	-	-
Accounts receivables, net (Note 4 and 10)	3,255,081	13	1,633,900	13
Inventories (Note 4 and 11)	3,822,218	15	1,755,142	14
Other financial assets (Note 4 and 9)	3,879,862	15	1,385,936	11
Other current assets	<u>536,459</u>	<u>2</u>	<u>184,262</u>	<u>2</u>
Total current assets	<u>18,125,416</u>	<u>72</u>	<u>8,970,922</u>	<u>73</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Note 4 and 7)	412,779	1	234,662	2
Financial assets at fair value through other comprehensive income - non-current (Note 4 and 8)	178,404	1	247,974	2
Property, plant and equipment (Note 4 and 13)	2,468,605	10	1,321,940	11
Goodwill (Notes 4 and 14)	1,237,268	5	1,237,268	10
Other intangible assets (Note 4 and 15)	47,228	-	63,202	-
Deferred tax assets (Note 4 and 25)	9,914	-	85,154	1
Refundable deposits (Note 16)	2,841,745	11	172,465	1
Other non-current assets (Note 32)	<u>10,575</u>	<u>-</u>	<u>11,466</u>	<u>-</u>
Total non-current assets	<u>7,206,518</u>	<u>28</u>	<u>3,374,131</u>	<u>27</u>
TOTAL	<u>\$ 25,331,934</u>	<u>100</u>	<u>\$ 12,345,053</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 17)	\$ 301,712	1	\$ 523,648	4
Accounts payables (Note 18)	2,620,160	10	1,731,109	14
Other payables (Note 19)	1,596,958	6	1,037,431	8
Current tax liabilities (Notes 4 and 25)	1,786,309	7	433,121	4
Other current liabilities (Notes 23)	<u>110,356</u>	<u>1</u>	<u>230,944</u>	<u>2</u>
Total current liabilities	<u>6,415,495</u>	<u>25</u>	<u>3,956,253</u>	<u>32</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 17)	786,840	3	-	-
Deferred tax liabilities (Note 4 and 25)	51,584	-	53,213	1
Net defined benefit liabilities - non-current (Note 4 and 20)	22,140	-	23,366	-
Guarantee deposits received (Note 21)	4,397,513	18	490,361	4
Other non-current liabilities	<u>10,400</u>	<u>-</u>	<u>10,400</u>	<u>-</u>
Total non-current liabilities	<u>5,268,477</u>	<u>21</u>	<u>577,340</u>	<u>5</u>
Total liabilities	<u>11,683,972</u>	<u>46</u>	<u>4,533,593</u>	<u>37</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 4, 22 and 27)				
Share capital				
Ordinary shares	<u>2,162,367</u>	<u>9</u>	<u>2,103,532</u>	<u>17</u>
Capital surplus				
Additional paid-in capital	4,737,390	19	4,725,445	38
Treasury shares	79,917	-	69,361	1
Employee stock options	65,873	-	14,903	-
Restricted stock for employees	1,145,555	5	-	-
Employee share options – expired	<u>34,134</u>	<u>-</u>	<u>33,933</u>	<u>-</u>
Total capital surplus	<u>6,062,869</u>	<u>24</u>	<u>4,843,642</u>	<u>39</u>
Retained earnings				
Legal reserve	101,230	-	-	-
Special reserve	122,316	-	-	-
Undistributed earnings	<u>6,202,079</u>	<u>25</u>	<u>1,012,301</u>	<u>8</u>
Total retained earnings	<u>6,425,625</u>	<u>25</u>	<u>1,012,301</u>	<u>8</u>
Other equity				
Exchange differences from translating the financial statements of foreign operations	(211,648)	(1)	(125,038)	(1)
Unrealized gain on financial assets at fair value through other comprehensive income	169	-	2,722	-
Unearned employee compensation	<u>(813,720)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
Total other equity	<u>(1,025,199)</u>	<u>(4)</u>	<u>(122,316)</u>	<u>(1)</u>
Treasury shares	-	-	<u>(24,316)</u>	<u>-</u>
Equity attributable to owners of the parent	<u>13,625,662</u>	<u>54</u>	<u>7,812,843</u>	<u>63</u>
NON-CONTROLLING INTERESTS (Note 22)	<u>22,300</u>	<u>-</u>	<u>(1,383)</u>	<u>-</u>
Total equity	<u>13,647,962</u>	<u>54</u>	<u>7,811,460</u>	<u>63</u>
TOTAL	<u>\$ 25,331,934</u>	<u>100</u>	<u>\$ 12,345,053</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, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2021		2020	
	Amount	%	Amount	%
REVENUE (Note 4 and 23)	\$ 21,991,497	100	\$ 13,800,348	100
COST OF REVENUE (Note 4,11 and 24)	<u>(11,262,098)</u>	<u>(51)</u>	<u>(10,371,572)</u>	<u>(75)</u>
GROSS PROFIT	<u>10,729,399</u>	<u>49</u>	<u>3,428,776</u>	<u>25</u>
OPERATING EXPENSES (Note 24, 27, 28 and 31)				
Selling and marketing expenses	(555,675)	(2)	(398,828)	(3)
General and administrative expenses	(633,984)	(3)	(363,193)	(3)
Research and development expenses	<u>(2,409,274)</u>	<u>(11)</u>	<u>(1,636,018)</u>	<u>(12)</u>
Total operating expenses	<u>(3,598,933)</u>	<u>(16)</u>	<u>(2,398,039)</u>	<u>(18)</u>
OPERATING INCOME	<u>7,130,466</u>	<u>33</u>	<u>1,030,737</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs(Note 24)	(12,680)	-	(2,009)	-
Share of loss of subsidiaries and joint ventures(Note4)	-	-	(4,970)	-
Interest income(Note4)	31,307	-	51,835	-
Gain (Loss) on financial assets and liabilities at fair value through profit or loss(Note4)	83,103	-	(5,607)	-
Other gains and losses - net	428,564	2	92,446	1
Loss on foreign exchange(Note4)	<u>(57,690)</u>	<u>-</u>	<u>(5,335)</u>	<u>-</u>
Total non-operating income and expenses	<u>472,604</u>	<u>2</u>	<u>126,360</u>	<u>1</u>
INCOME BEFORE INCOME TAX	7,603,070	35	1,157,097	8
INCOME TAX EXPENSE (Note 4 and 25)	<u>(1,506,220)</u>	<u>(7)</u>	<u>(173,639)</u>	<u>(1)</u>
NET INCOME	<u>6,096,850</u>	<u>28</u>	<u>983,458</u>	<u>7</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans(Notes 4 and 20)	751	-	359	-
Income tax related to items that will not be reclassified subsequently to profit or loss(Notes 4 and 25)	<u>(105)</u>	<u>-</u>	<u>(50)</u>	<u>-</u>
	<u>646</u>	<u>-</u>	<u>309</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations(Notes 4)	(89,858)	(1)	(132,636)	(1)
Unrealized (loss) gain from debt instrument investments measured at fair value through other comprehensive loss(Notes 4)	<u>(2,553)</u>	<u>-</u>	<u>972</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss	<u>(92,411)</u>	<u>(1)</u>	<u>(131,664)</u>	<u>(1)</u>
Total other comprehensive income	<u>(91,765)</u>	<u>(1)</u>	<u>(131,355)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>6,005,085</u>	<u>27</u>	<u>852,103</u>	<u>6</u>
NET INCOME ATTRIBUTABLE TO:				
Owners of the Parent	6,112,935	28	1,011,992	7
Non-controlling interests	<u>(16,085)</u>	<u>-</u>	<u>(28,534)</u>	<u>-</u>
	<u>6,096,850</u>	<u>28</u>	<u>983,458</u>	<u>7</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Parent	\$ 6,024,418	27	\$ 884,178	6
Non-controlling interests	<u>(19,333)</u>	<u>-</u>	<u>(32,075)</u>	<u>-</u>
	<u>\$ 6,005,085</u>	<u>27</u>	<u>\$ 852,103</u>	<u>6</u>
EARNINGS PER SHARE (Note 26)				
Basic	<u>\$ 30.23</u>		<u>\$ 3.97</u>	
Diluted	<u>\$ 28.62</u>		<u>\$ 3.73</u>	

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

(Concluded)

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

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent											
	Share Capital		Retained Earnings			Other Equity			Treasury Shares	Total	Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Exchange Differences from Translating the Financial Statement of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unearned employee compensation				
BALANCE, JANUARY 1, 2020	\$ 2,996,759	\$ 5,145,377	\$ -	\$ -	(\$ 183,307)	\$ 4,057	\$ 1,750	\$ -	(\$ 267,158)	\$ 7,697,478	\$ 30,692	\$ 7,728,170
Reduction on capital surplus to offset 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 income (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 22)	(899,721)	-	-	-	-	-	-	-	5,191	(894,530)	-	(894,530)
Compensation cost of employee share options (Note 22 and 27)	-	21,279	-	-	-	-	-	-	-	21,279	-	21,279
Treasury shares transferred to employees (Note 22 and 27)	-	1,228	-	-	-	-	-	-	237,651	238,879	-	238,879
Issuance of ordinary shares from exercise of employee share options (Note 22 and 27)	6,494	9,065	-	-	-	-	-	-	-	15,559	-	15,559
BALANCE, 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
Appropriation of 2020 earnings												
Legal reserve	-	-	101,230	-	(101,230)	-	-	-	-	-	-	-
Special reserve	-	-	-	122,316	(122,316)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(700,000)	-	-	-	-	(700,000)	-	(700,000)
Net income for the year ended December 31, 2021	-	-	-	-	6,112,935	-	-	-	-	6,112,935	(16,085)	6,096,850
Other comprehensive income (loss) for the year ended December 31, 2021, net of income tax	-	-	-	-	646	(86,610)	(2,553)	-	-	(88,517)	(3,248)	(91,765)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	6,113,581	(86,610)	(2,553)	-	-	6,024,418	(19,333)	6,005,085
Compensation cost of employee share options (Note 22 and 27)	-	66,351	-	-	-	-	-	-	-	66,351	-	66,351
Treasury shares transferred to employees (Note 22 and 27)	-	1,947	-	-	-	-	-	-	23,945	25,892	-	25,892
Treasury shares retired	(119)	(252)	-	-	-	-	-	-	371	-	-	-
Increase in non-controlling interests	-	-	-	-	-	-	-	-	-	-	42,759	42,759
Changes in ownership interests in subsidiaries	-	-	-	-	(257)	-	-	-	-	(257)	257	-
Issuance of ordinary shares from exercise of employee share options (Note 22 and 27)	3,764	5,626	-	-	-	-	-	-	-	9,390	-	9,390
Issuance of restricted stock employees (Note 4, 22 and 27)	55,190	1,145,555	-	-	-	-	-	(1,145,555)	-	55,190	-	55,190
Compensation cost of restricted stock to employees (Note 4, 22 and 27)	-	-	-	-	-	-	-	331,835	-	331,835	-	331,835
BALANCE, DECEMBER 31, 2021	\$ 2,162,367	\$ 6,062,869	\$ 101,230	\$ 122,316	\$ 6,202,079	(\$ 211,648)	\$ 169	(\$ 813,720)	\$ -	\$ 13,625,662	\$ 22,300	\$ 13,647,962

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, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,603,070	\$ 1,157,097
Adjustments for:		
Depreciation expenses	86,494	77,433
Amortization expenses	15,955	35,903
Net (gain) loss on financial assets at fair value through profit or loss	(83,103)	5,607
Finance costs	12,680	2,009
Interest income	(31,307)	(51,835)
Compensation cost of employee share options	66,351	21,279
Compensation cost of restricted stock to employees	331,835	-
Share of loss of subsidiaries and joint ventures	-	4,970
Loss on disposal of property, plant and equipment	318	1,264
(Gain) loss on disposal of investments	(183,272)	40,928
Reversal gain on write-off of inventories	(259,552)	(229,556)
Unrealized (gain) loss on foreign exchange	(31,157)	(37,330)
Changes in operating assets and liabilities		
Financial assets mandatorily measured at fair value through profit or loss	(34,762)	(230,416)
Accounts receivables	(1,624,336)	(233,170)
Inventories	(1,814,888)	19,988
Other current assets	(354,559)	165,670
Accounts payables	893,835	(228,551)
Other payables	581,523	113,845
Other current liabilities	(119,053)	125,308
Net defined benefit liabilities	(475)	(353)
Cash generated from operations	5,055,597	760,090
Interest paid	(12,673)	(1,792)
Income tax paid	(70,372)	(31,382)
Net cash inflow from operating activities	<u>4,972,552</u>	<u>726,916</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through other comprehensive income	-	(197,216)
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	118,197
Acquisition of investments accounted for using equity method	-	(4,970)
Acquisition of property, plant and equipment	(1,241,028)	(22,860)
Acquisition of intangible assets	-	(147)
(Decrease) increase in other financial assets	(2,520,040)	155,603
Increase in refundable deposits	(2,669,759)	(52,817)
Decrease in other non-current assets	851	3,880
Interest received	36,430	63,648
Net cash (outflow) inflow from investing activities	<u>(6,393,546)</u>	<u>63,318</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	\$ (221,693)	\$ 522,827
Increase in long-term borrowings	786,840	-
Increase in guarantee deposits	3,907,208	99,862
Issuance of restricted stock employees	55,190	-
Dividends paid to owners of the Company	(700,000)	(150,000)
Capital reduction payments to shareholders	-	(894,530)
Exercise of employee share options	9,390	15,559
Treasury shares transferred to employees	25,892	238,879
Increase in non-controlling interests	<u>42,759</u>	<u>-</u>
Net cash inflow (outflow) from financing activities	<u>3,905,586</u>	<u>(167,403)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(39,286)</u>	<u>(72,652)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,445,306	550,179
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>4,011,682</u>	<u>3,461,503</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 6,456,988</u>	<u>\$ 4,011,682</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 YEAR ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on February 23, 2022.

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

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

The initial application of the amendments to the IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 (Interest Rate Benchmark Reform-Phase 2 and Covid-19-Related Rent Concessions beyond 30 June 2021) endorsed and issued in to effect by the FSC did not have a significant impact on the Group’s accounting policies.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2022

New, Revised or Amended Standards and Interpretations	Effective Date Announced by IASB
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022 (Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022 (Note 2)
Amendments to IAS 16 “Property, Plant and Equipment-Proceeds before Intended Use”	January 1, 2022 (Note 3)
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022 (Note 4)

Note 1: The amendments to IFRS 9 will be applied prospectively to modifications or 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 2: 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 3: 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 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Group assessed the application of abovementioned standards and interpretations do not have significant impact on the Group's financial position and financial performance.

- c. The IFRSs issued by IASB, but not yet endorsed and issued into effect by the FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17- Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

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

b. Basis of Preparation

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

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

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

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

Current assets include:

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

Current liabilities include:

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

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

d. Basis of consolidation

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

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

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

e. Foreign currencies

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

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

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

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

f. Inventories

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

g. Property, plant and equipment

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

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

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

h. Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An

impairment loss recognized for goodwill is not reversed in subsequent periods.

i. Intangible assets

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

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

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

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

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

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

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

k. Financial instruments

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

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

1) Financial assets

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

i) Measurement category

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

A. Financial asset at FVTPL

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

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

B. Financial assets at amortized cost

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

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

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

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

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

C. Investments in debt instruments at FVTOCI

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

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

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

instruments are recognized in other comprehensive income and will be reclassified to profit or loss when these debt instruments are disposed.

ii) Impairment of financial assets

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

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

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

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

iii) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

3) Financial liabilities

i) Subsequent measurement

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

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 accounts receivables are recognized concurrently.

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

n. Lease

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

The Group as a lessee

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

o. Borrowing costs

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

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

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

p. Government Grants

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

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

q. Employee benefits

1) Short-term employee benefits

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

2) Retirement benefits

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

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

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

r. Share-based payment arrangements

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

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

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits.

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

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

s. Taxation

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

1) Current tax

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

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

2) Deferred tax

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

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

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

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

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

3) Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2021	2020
Cash on hand	\$ 24,233	\$ 2,182
Checking accounts and demand deposits	4,141,003	3,668,013
Cash equivalent (time deposits with original maturities within three months)	<u>2,291,752</u>	<u>341,487</u>
	<u>\$ 6,456,988</u>	<u>\$ 4,011,682</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2021	2020
<u>Current</u>		
Mandatorily measured at fair value through profit or loss (FVTPL)		
Listed ordinary shares	<u>\$ 119,218</u>	<u>\$ -</u>
<u>Non – Current</u>		
Mandatorily measured at fair value through profit or loss (FVTPL)		
Listed preferred shares	\$ 151,801	\$ 72,186
Private Funds	156,075	52,579
Structured Investments	<u>104,903</u>	<u>109,897</u>
	<u>\$ 412,779</u>	<u>\$ 234,662</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2021	2020
Investments in debt instruments		
<u>Current</u>		
Foreign investments		
Fixed income bonds	<u>\$ 55,590</u>	<u>\$ -</u>
<u>Non – Current</u>		
Foreign investments		
Fixed income bonds	<u>\$ 178,404</u>	<u>\$ 247,974</u>

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

9. OTHER FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Time deposits with original maturities more than three months	<u>\$ 3,879,862</u>	<u>\$ 1,385,936</u>

10. ACCOUNTS RECEIVABLES, NET

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Accounts receivables	<u>\$ 3,255,081</u>	<u>\$ 1,633,900</u>

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

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

The following table details the loss allowance of accounts receivables based on the Group's allowance matrix.
December 31, 2021

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

December 31, 2020

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

11. INVENTORIES

	December 31	
	2021	2020
Finished goods	\$ 1,233,626	\$ 418,694
Work in progress	1,622,781	1,025,201
Raw materials and supplies	<u>965,811</u>	<u>311,247</u>
	<u>\$ 3,822,218</u>	<u>\$ 1,755,142</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2021 and 2020 was NT\$11,262,098 thousand and NT\$10,371,572 thousand, included gain from price recovery of inventory of NT\$259,552 thousand and NT\$229,556 thousand for the years ended December 31, 2021 and 2020, respectively. Above mentioned gains from price recovery of inventory are resulted from sales of slow moving inventory.

12. SUBSIDIARIES

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

Investor	Investee	Main Businesses	Percentage of Ownership		Note
			December 31, 2021	December 31, 2020	
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Investment activity	100%	100%	-
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Investment activity	100%	100%	-
FocalTech Systems Co., Ltd. And FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Investment activity	66.45%	67.15%	Note1
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.	Design and research of integrated circuits	100%	100%	-
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Import and export of integrated circuits	100%	100%	-
FocalTech Electronics, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	100%	100%	-
FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	100%	100%	-
FocalTech Electronics, Ltd.	Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	100%	100%	-

Note1: The changes in the shareholding ratio of FocalTech Smart Sensors, Ltd. is due to the Group did not subscribe proportionally when its cash capital was increased.

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Development Equipment</u>	<u>Office Equipment</u>	<u>Information Equipment</u>	<u>Leasehold Improvements</u>	<u>Construction In progress</u>	<u>Total</u>
<u>Cost</u>							
Balance, January 1, 2021	\$ 1,343,090	\$ 292,977	\$ 11,557	\$ 38,869	\$ 38,604	\$ -	\$ 1,725,097
Additions	-	154,365	731	5,802	-	1,080,130	1,241,028
Reclassification	-	(156)	104	52	-	-	-
Disposals	-	(8,366)	-	-	-	-	(8,366)
Effect of foreign currency exchange differences	(6,969)	(4,132)	(43)	(183)	(74)	-	(11,401)
Balance, December 31, 2021	<u>\$ 1,336,121</u>	<u>\$ 434,688</u>	<u>\$ 12,349</u>	<u>\$ 44,540</u>	<u>\$ 38,530</u>	<u>\$ 1,080,130</u>	<u>\$ 2,946,358</u>
<u>Accumulated depreciation</u>							
Balance, January 1, 2021	\$ 121,696	\$ 203,722	\$ 9,574	\$ 29,561	\$ 38,604	\$ -	\$ 403,157
Depreciation	35,492	47,738	575	2,689	-	-	86,494
Reclassification	-	-	(10)	10	-	-	-
Disposals	-	(8,048)	-	-	-	-	(8,048)
Effect of foreign currency exchange differences	(622)	(2,989)	(32)	(133)	(74)	-	(3,850)
Balance, December 31, 2021	<u>\$ 156,566</u>	<u>\$ 240,423</u>	<u>\$ 10,107</u>	<u>\$ 32,127</u>	<u>\$ 38,530</u>	<u>\$ -</u>	<u>\$ 477,753</u>
Carrying amounts as of December 31, 2021	<u>\$ 1,179,555</u>	<u>\$ 194,265</u>	<u>\$ 2,242</u>	<u>\$ 12,413</u>	<u>\$ -</u>	<u>\$ 1,080,130</u>	<u>\$ 2,468,605</u>
<u>Cost</u>							
Balance, 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, 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>\$ -</u>	<u>\$ 1,725,097</u>
<u>Accumulated depreciation</u>							
Balance, 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, December 31, 2020	<u>\$ 121,696</u>	<u>\$ 203,722</u>	<u>\$ 9,574</u>	<u>\$ 29,561</u>	<u>\$ 38,604</u>	<u>\$ -</u>	<u>\$ 403,157</u>
Carrying amounts as of December 31, 2020	<u>\$ 1,221,394</u>	<u>\$ 89,255</u>	<u>\$ 1,983</u>	<u>\$ 9,308</u>	<u>\$ -</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 32.

14. GOODWILL

	For the Year Ended December 31	
	2021	2020
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 16.52% and 15.45% for the years ended December 31, 2021 and 2020, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin.

15. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance, January 1, 2021	\$ 122,262	\$ 148,247	\$ 76,708	\$ 74,000	\$ 421,217
Reclassification	8,911	(8,911)	-	-	-
Effect of foreign currency exchange differences	(3,161)	(3,497)	(1)	-	(6,659)
Balance, December 31, 2021	<u>\$ 128,012</u>	<u>\$ 135,839</u>	<u>\$ 76,707</u>	<u>\$ 74,000</u>	<u>\$ 414,558</u>
<u>Accumulated amortization</u>					
Balance, January 1, 2021	\$ 122,130	\$ 144,543	\$ 46,942	\$ 44,400	\$ 358,015
Amortization expenses	132	638	7,785	7,400	15,955
Reclassification	8,911	(8,911)	-	-	-
Effect of foreign currency exchange differences	(3,161)	(3,478)	(1)	-	(6,640)
Balance, December 31, 2021	<u>\$ 128,012</u>	<u>\$ 132,792</u>	<u>\$ 54,726</u>	<u>\$ 51,800</u>	<u>\$ 367,330</u>
Carrying amounts as of December 31, 2021	<u>\$ -</u>	<u>\$ 3,047</u>	<u>\$ 21,981</u>	<u>\$ 22,200</u>	<u>\$ 47,228</u>
<u>Cost</u>					
Balance, 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, December 31, 2020	<u>\$ 122,262</u>	<u>\$ 148,247</u>	<u>\$ 76,708</u>	<u>\$ 74,000</u>	<u>\$ 421,217</u>

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	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Accumulated amortization</u>					
Balance, January 1, 2020	\$ 109,676	\$ 148,376	\$ 39,152	\$ 37,000	\$ 334,204
Amortization expenses	17,660	3,057	7,786	7,400	35,903
Reclassification	(5,206)	(6,890)	4	-	(12,092)
Balance, 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 as of					
December 31, 2020	<u>\$ 132</u>	<u>\$ 3,704</u>	<u>\$ 29,766</u>	<u>\$ 29,600</u>	<u>\$ 63,202</u>

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

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

16. REFUNDABLE DEPOSITS

	December 31	
	2021	2020
Capacity guarantee deposits and others	<u>\$2,841,745</u>	<u>\$ 172,465</u>

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

17. BORROWINGS

a. Short-term borrowings

	December 31	
	2021	2020
Unsecured bank loans	\$ -	\$ 480,000
Secured bank loans(Note 32)	<u>301,712</u>	<u>43,648</u>
	<u>\$ 301,712</u>	<u>\$ 523,648</u>
Annual interest rate		
Unsecured bank loans	-	0.88~1.06%
Secured bank loans	1.74~1.81%	4.1%

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

b. Long-term borrowings

	December 31	
	2021	2020
Secured bank loans	<u>\$ 786,840</u>	<u>\$ -</u>
Annual interest rate		
Secured bank loans	1.00%	-

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

18. ACCOUNTS PAYABLES

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Accounts payables	<u>\$ 2,620,160</u>	<u>\$ 1,731,109</u>

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

19. OTHER PAYABLES

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Payable for rebates	\$ 610,291	\$ 423,800
Payable for salaries and bonus	777,747	467,979
Payable for labor, health and social insurance	15,913	13,977
Reserve for litigations	46,261	47,598
Payable for professional services and others	<u>146,746</u>	<u>84,077</u>
	<u>\$1,596,958</u>	<u>\$1,037,431</u>

20. RETIREMENT BENEFIT

a. Defined contribution plans

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

b. Defined benefit plans

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

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

	December 31	
	2021	2020
Present value of defined benefit obligation	\$ 40,265	\$ 42,275
Fair value of plan assets	(18,125)	(18,909)
Net defined benefit liability	<u>\$ 22,140</u>	<u>\$ 23,366</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2021	<u>\$ 42,275</u>	<u>(\$ 18,909)</u>	<u>\$ 23,366</u>
Net interest expense (income)	<u>338</u>	<u>(154)</u>	<u>184</u>
Recognized in profit or loss	<u>338</u>	<u>(154)</u>	<u>184</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(90)	(90)
Actuarial loss - changes in financial assumptions	764	-	764
Actuarial loss - experience adjustments	<u>(1,425)</u>	<u>-</u>	<u>(1,425)</u>
Recognized in other comprehensive income	<u>(661)</u>	<u>(90)</u>	<u>(751)</u>
Contributions from the employer	-	(659)	(659)
Benefits paid	<u>(1,687)</u>	<u>1,687</u>	<u>-</u>
Balance at December 31, 2021	<u>\$ 40,265</u>	<u>(\$ 18,125)</u>	<u>\$ 22,140</u>
Balance at January 1, 2020	<u>\$ 45,235</u>	<u>(\$ 21,157)</u>	<u>\$ 24,078</u>
Service cost	126	-	126
Net interest expense (income)	<u>452</u>	<u>(215)</u>	<u>237</u>
Recognized in profit or loss	<u>578</u>	<u>(215)</u>	<u>363</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(619)	(619)
Actuarial gains - changes in demographic assumptions	1,436	-	1,436
Actuarial loss - changes in financial assumptions	1,151	-	1,151
Actuarial loss - experience adjustments	<u>(2,327)</u>	<u>-</u>	<u>(2,327)</u>
Recognized in other comprehensive income	<u>260</u>	<u>(619)</u>	<u>(359)</u>
Contributions from the employer	-	(716)	(716)
Benefits paid	<u>(3,798)</u>	<u>3,798</u>	<u>-</u>
Balance at December 31, 2020	<u>\$ 42,275</u>	<u>(\$ 18,909)</u>	<u>\$ 23,366</u>

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

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated

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management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2021	2020
Discount rate	0.65%	0.8%
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:

	December 31	
	2021	2020
Discount rate		
0.25% increase	(\$ 1,263)	(\$ 1,501)
0.25% decrease	\$ 1,314	\$ 1,566
Expected rate of salary increase		
1% increase	\$ 5,348	\$ 6,441
1% decrease	(\$ 4,670)	(\$ 5,567)

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

	December 31	
	2021	2020
The expected contributions to the plan for the next year	\$ 680	\$ 717
The average duration of the defined benefit obligation	15.2 years	16.1 years

21. GUARANTEE DEPOSITS RECEIVED

	December 31	
	2021	2020
Capacity guarantee deposits and others	\$4,397,513	\$ 490,361

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

22. EQUITY

a. Share capital

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

	<u>December 31</u>	
	<u>2021</u>	<u>2020</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>216,237</u>	<u>210,353</u>
Shares issued	<u>\$ 2,162,367</u>	<u>\$ 2,103,532</u>

The company has redeemed 326 thousand shares of issued restricted stocks for employees during the year ended December 31, 2021. The registration processes have not been completed as of December 31, 2021.

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Restricted stock for employees (2)	Employee Share Options (2)	Employee Share Options - Expired (1)	Total
BALANCE, JANUARY 1, 2021	\$ 4,725,445	\$ 69,361	\$ -	\$ 14,903	\$ 33,933	\$ 4,843,642
Treasury shares transferred to employees	-	1,947	-	-	-	1,947
Employee treasury share vested	-	8,861	-	(8,861)	-	-
Treasury shares retired	-	(252)	-	-	-	(252)
Compensation cost of employee share options	-	-	-	66,351	-	66,351
Issuance of ordinary shares from exercise of employee share options	11,945	-	-	(6,319)	-	5,626
Employee share options expired	-	-	-	(201)	201	-
Issuance of restricted stock for employees	-	-	1,145,555	-	-	1,145,555
BALANCE, DECEMBER 31, 2021	<u>\$ 4,737,390</u>	<u>\$ 79,917</u>	<u>\$ 1,145,555</u>	<u>\$ 65,873</u>	<u>\$ 34,134</u>	<u>\$ 6,062,869</u>
BALANCE, JANUARY 1, 2020	\$ 5,037,671	\$ 48,662	\$ -	\$ 25,510	\$ 33,534	\$ 5,145,377
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
Issuance of ordinary shares from exercise of employee share options	21,081	-	-	(12,016)	-	9,065
Employee share options expired	-	-	-	(399)	399	-
BALANCE, 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 transferred to share capital (at a certain percentage of the Company's capital surplus annually).

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

c. Retained earnings and dividend policy

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

According to The Company's amended Articles of Incorporation, when the Company distributed earnings belonging to the first three quarters, it shall first estimate and reserve taxes to be paid, offset its deficits, estimate and reserve employees' compensation and remuneration to directors. Second, the Company set aside a legal capital reserve at 10% of the remaining earnings and set aside or reverse special reserve in accordance with the laws and regulations. Third any remaining profit along with any undistributed retained earnings at the beginning shall be used by the Company's board of directors. The board of directors shall propose the distribution of retained earnings after considering operational situations. When the retained earnings are distributed in form of stock, the resolution shall be approved by the shareholders' meeting. When the retained earnings are distributed in form of cash, the resolution shall be approved by the board of directors.

When the Company has earnings at the end of the year, it 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 propose a distribution for the remaining earnings, along with 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 remaining 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 24(d) for policy stipulated in the Articles of Incorporation regarding to the remuneration for employees and directors.

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

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

The Company's shareholders' meeting was held on June 20, 2020. The resolution was as follows. The Company offset the loss of NT\$183,307 thousand from additional paid-in capital and the cash distribution of NT\$150,000 thousand, i.e. NT\$0.50291032 per share, from additional paid-in capital of share issue premium.

To increase the return on shareholders' equity, the Company 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 fund of capital reduction was returned to the company's shareholders on October 28th, 2020.

The appropriation of earnings for 2020 was approved by the shareholders' meeting held on August 19th, 2021. The details of distribution are as follows:

	<u>2020</u>
Legal reserve	\$ 101,230
Special reserve	<u>\$ 122,316</u>
Cash dividends	<u>\$ 700,000</u>
Cash dividends per share	<u>\$ 3.32</u>

d. Special reserve

	<u>2021</u>
Balance, beginning	\$ -
Special reserve appropriated	<u>122,316</u>
Balance, ending	<u>\$ 122,316</u>

e. Treasury shares

	<u>Shares (In Thousands)</u>
Number of shares on January 1, 2020	10,978
Decrease during the period	(9,681)
Decrease due to capital reduction	<u>(519)</u>
Number of shares on December 31, 2020	<u>778</u>
Number of shares on January 1, 2021	778
Decrease during the period	<u>(778)</u>
Number of shares on December 31, 2021	<u>-</u>

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

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

f. Unearned employee compensation

	<u>2021</u>
Balance, beginning	\$ -
Issuance of shares	(1,145,555)
Share-based payment expenses recognized	<u>331,835</u>
Balance, ending	<u>(\$ 813,720)</u>

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

g. Non-controlling interests

	December 31	
	2021	2020
Balance, beginning	(\$ 1,383)	\$ 30,692 (28,534)
Net loss	(16,085)	
Other comprehensive income (loss)		
Exchange differences from translating the financial statements of foreign operations	(3,248)	(3,541)
Non-controlling interests subscribing subsidiary new shares issuing for cash	42,759	-
Changes in ownership interests in subsidiaries	<u>257</u>	<u>-</u>
Balance, ending	<u>\$ 22,300</u>	(\$ <u>1,383</u>)

23. REVENUE

	For the Year Ended December 31	
	2021	2020
IC for Human-Machine Interface solutions	<u>\$ 21,991,497</u>	<u>\$ 13,800,348</u>

Contract balances

	December 31	
	2021	2020
Contract liabilities (classified as current liabilities)		
Sales of goods	<u>\$ 49,099</u>	<u>\$ 149,430</u>

24. NET INCOME

a. Financial costs

	For the Year Ended December 31	
	2021	2020
Interest on bank loans	\$ 12,240	\$ 931
Interest on deposits	<u>440</u>	<u>1,078</u>
	<u>\$ 12,680</u>	<u>\$ 2,009</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2021	2020
Property, plant and equipment	\$ 86,494	\$ 77,433
Intangible assets	<u>15,955</u>	<u>35,903</u>
	<u>\$ 102,449</u>	<u>\$ 113,336</u>
An analysis of depreciation and amortization by function		
Operating costs	\$ 8,892	\$ 722
Operating expenses	<u>93,557</u>	<u>112,614</u>
	<u>\$ 102,449</u>	<u>\$ 113,336</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2021	2020
Post-employment benefits		
Defined contribution plans	\$ 30,331	\$ 28,022
Defined benefit plans (see Note 20)	184	363
Share-based payments (see Note 27)	398,186	21,279
Other employee benefits	<u>2,214,641</u>	<u>1,442,245</u>
Total employee benefits expense	<u>\$ 2,643,342</u>	<u>\$ 1,491,909</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 227,778	\$ 124,636
Operating expenses	<u>2,415,564</u>	<u>1,367,273</u>
	<u>\$ 2,643,342</u>	<u>\$ 1,491,909</u>

d. The remuneration of employees and directors

According to the Company's Articles of Incorporation, the distributable compensation to employees and remuneration to directors shall not be less than 1% and not more than 1.5%, respectively, of net profit before income tax. The accrued employees' compensation and remuneration of directors for the year ended December 31, 2021 and 2020 are as follows:

Amount

	For the Year Ended December 31	
	2021	2020
Employees' compensation	<u>\$316,730</u>	<u>\$123,450</u>
Remuneration of directors	<u>\$ 30,000</u>	<u>\$ 7,214</u>

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

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

	For the Year Ended December 31	
	2021	2020
Resolution Date of the Company's Board of Directors in its meeting	February 23,2022	February 4,2021
Employees' compensation	<u>\$ 316,730</u>	<u>\$ 123,450</u>
Remuneration of directors	<u>\$ 30,000</u>	<u>\$ 7,214</u>

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

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

25. INCOME TAXES

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

	For the Year Ended December 31	
	2021	2020
Current tax		
In respect of the current year	\$ 1,310,749	\$ 114,160
Adjustments for prior years	<u>122,040</u>	<u>4,006</u>
	<u>1,432,789</u>	<u>118,166</u>
Deferred tax		
In respect of the current year	73,431	54,139
Adjustments for prior years	<u>-</u>	<u>1,334</u>
	<u>73,431</u>	<u>55,473</u>
Income tax expense recognized in profit or loss	<u>\$ 1,506,220</u>	<u>\$ 173,639</u>

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

	For the Year Ended December 31	
	2021	2020
Income before tax from continuing operations	<u>\$ 7,603,070</u>	<u>\$ 1,157,097</u>
Income tax expense calculated at the statutory rate and the effective tax rate	\$ 1,097,956	\$ 156,784
Nondeductible expenses in determining taxable income	17,678	7,510
Tax effect of earnings to be distributed by subsidiaries	429	21,734
Tax exemption	(37,877)	-
Unrecognized temporary differences	(1,001)	(31,207)
Unrecognized loss carryforwards	43,083	13,478
Adjustments for prior years' tax	122,040	5,340
Tax effects from investment tax credit rate less than 30%	<u>263,912</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 1,506,220</u>	<u>\$ 173,639</u>

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

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

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b. Current tax assets and liabilities

	For the Year Ended December 31	
	2021	2020
Current tax assets(recorded as other current assets)		
Tax refund receivable	\$ 1,510	\$ 2,050
	For the Year Ended December 31	
	2021	2020
Current tax liabilities		
Income tax levied on accumulated overseas undistributed earnings (i)	\$ 286,867	\$ 316,119
Income tax payable	<u>1,499,442</u>	<u>117,002</u>
Total	<u>\$ 1,786,309</u>	<u>\$ 433,121</u>

(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:

2021

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Ending Balance
<u>Deferred tax assets</u>					
Temporary differences					
Obsolete of inventory	\$ 71,336	(\$ 60,557)	\$ -	\$ -	\$ 10,779
Others	<u>(3,950)</u>	<u>(379)</u>	<u>(105)</u>	<u>-</u>	<u>(4,434)</u>
	67,386	(60,936)	(105)	-	6,345
Loss carryforwards	<u>17,768</u>	<u>(14,124)</u>	<u>-</u>	<u>(75)</u>	<u>3,569</u>
	<u>\$ 85,154</u>	<u>(\$ 75,060)</u>	<u>(\$ 105)</u>	<u>(\$ 75)</u>	<u>\$ 9,914</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Intangible assets	\$ 8,232	(\$ 2,058)	\$ -	\$ -	\$ 6,174
Investment income recognized from foreign investees	<u>44,981</u>	<u>429</u>	<u>-</u>	<u>-</u>	<u>45,410</u>
	<u>\$ 53,213</u>	<u>(\$ 1,629)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,584</u>

2020

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Ending Balance
<u>Deferred tax assets</u>					
Temporary differences					
Obsolete of inventory	\$ 89,699	(\$ 18,363)	\$ -	\$ -	\$ 71,336
Others	<u>2,111</u>	<u>(6,011)</u>	<u>(50)</u>	<u>-</u>	<u>(3,950)</u>
	91,810	(24,374)	(50)	-	67,386
Loss carryforwards	<u>28,972</u>	<u>(11,423)</u>	<u>-</u>	<u>219</u>	<u>17,768</u>
	<u>\$ 120,782</u>	<u>(\$ 35,797)</u>	<u>(\$ 50)</u>	<u>\$ 219</u>	<u>\$ 85,154</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>-</u>	<u>-</u>	<u>44,981</u>
	<u>\$ 33,537</u>	<u>\$ 19,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,213</u>

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

Loss carryforwards as of December 31, 2021 comprised of:

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 11,925	2025
22,897	2026
73,861	2027
91,287	2028
73,447	2029
72,534	2030
<u>87,309</u>	2031
 <u>\$ 433,260</u>	

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

As of December 31, 2021 and 2020, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$1,770,810 thousand and \$2,480,872 thousand, respectively.

- f. Income tax assessments

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

26. EARNINGS PER SHARE

	Unit: NT\$ Per Share	
	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Basic earnings per share	<u>\$ 30.23</u>	<u>\$ 3.97</u>
Diluted earnings per share	<u>\$ 28.62</u>	<u>\$ 3.73</u>

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

Net Profit for the Period

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Earnings used in the computation of basic earnings per share	<u>\$6,112,935</u>	<u>\$1,011,992</u>

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

	For the Year Ended December 31	
	2021	2020
Weighted average number of ordinary shares used in the computation of basic earnings per share	202,208	254,897
Effect of potentially dilutive ordinary shares:		
Treasury shares transferred to Employees	8,157	14,592
Employee share options (share)	475	569
Restricted stock for employees (share)	785	-
The remuneration to employees	<u>1,984</u>	<u>1,322</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>213,609</u>	<u>271,380</u>

27. SHARE-BASED PAYMENT ARRANGEMENTS

The Group did not have stock option plan issued for employees and share buyback program for the year ended December 31, 2021 and 2020.

a. Employee stock option plan

Information about vested options of 2021 and 2020 are as following:

Employee Stock Option Plan	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	Range of exercise price (NT\$)	Weighted- average remaining contractual life (years)	Range of exercise price (NT\$)	Weighted- average remaining contractual life (years)
2006	\$5.37~36.17	0.11~1.27	\$5.46~36.8	1.1~2.27
2015	15.6	3.67	15.9	4.67

Information about outstanding options in 2021 and 2020 is as following:

December 31, 2021

Employee Stock Option Plan	<u>Beginning Balance</u>		<u>Options exercised</u>		<u>Options expired</u>		<u>Ending Balance</u>	
	Units of Option	Weighted- Average Exercise Price (NT\$)	Units of Option	Weighted- Average Exercise Price (NT\$)	Units of Option	Weighted- Average Exercise Price (NT\$)	Units of Option	Weighted- Average Exercise Price (NT\$)
2006	398,199	\$26.25	(199,800)	\$33.04	-	\$ -	198,399	\$19.86
2015	397,500	15.90	(176,500)	15.78	(12,000)	15.90	209,000	15.60

December 31, 2020

Employee Stock Option Plan	<u>Beginning Balance</u>		<u>Options exercised</u>		<u>Options expired</u>		<u>Ending Balance</u>	
	Units of Option	Weighted- Average Exercise Price (NT\$)	Units of Option	Weighted- Average Exercise Price (NT\$)	Units of Option	Weighted- Average Exercise Price (NT\$)	Units of Option	Weighted- Average Exercise Price (NT\$)
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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As of December 31, 2021, 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 year, 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 year.

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

b. Treasury shares transferred to employees

Information about treasury shares transferred to employees 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)	Retired Shares (In thousand share)	Transferred price (in dollar)
The 4th treasury shares Buy Back Program	2018/7/26	8,000	7,952	(46)	(2)	\$33.69 (Adjusted)
The 5th treasury shares Buy Back Program	2018/8/23	7,689	7,206	(473)	(10)	\$32.93 (Adjusted)

Information about treasure stock transferred to employees for the year ended December 31, 2021 is as follows:

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	\$ 3.30	2019/05/07	4,651	\$ -
2021/04/07	104	181.40	2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/16	434	1.90
			2021/04/07	572	181.70
			2021/07/29	90	242.20
Total	<u>7,952</u>		Total	<u>7,206</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.

c. Restricted stock for employees

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

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

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

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

The constraints of restricted stock are as follows:

- a. Employees are restricted to dispose, pledged, transferred, and give to others the granted shares until they are vested.
- b. The rights of restricted stock are same as ordinary share including attendance, propose, speak, voting right and so on.
- c. Stock dividends and cash dividends yielding from restricted stock will be distributed to employees in the current year, and will not be restricted.
- d. National employee should transfer the granted shares to trustee appointed by the Company immediately. Before they are vested, the restricted should be kept in trustee. Non-national employee' granted share should be kept by bank appointed by the Company.

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

Compensation cost of aforementioned share-based payments for the year ended December 31, 2021 and 2020 was as follows:

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Shares buyback programs	\$ 66,351	\$ 21,279
Restricted stock for employees	<u>331,835</u>	<u>-</u>
	<u>\$ 398,186</u>	<u>\$ 21,279</u>
Adjustment account:		
Capital surplus - employee stock options	\$ 66,351	\$ 21,279
Other equity - unearned employee compensation	<u>331,835</u>	<u>-</u>
	<u>\$ 398,186</u>	<u>\$ 21,279</u>

28. OPERATING LEASE ARRANGEMENTS

The Group as a lessee

The Company and its subsidiaries have lease contracts in relation to office, plant and part of office equipment, which would be expired before December, 2022. Those agreements are short-term leases and qualified for the recognition exemption to leases so the Company does not recognize right-of-use assets and lease liabilities for these leases. The committed payments for the short-term leases were \$21,135 thousand and \$16,708 thousand as of December 31, 2021 and 2020.

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

	For the Year Ended December 31	
	2021	2020
Lease payment	<u>\$ 34,633</u>	<u>\$ 35,178</u>

29. CAPITAL MANAGEMENT

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

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

The Group was not restricted to other external capital requirements.

30. FINANCIAL INSTRUMENTS

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

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

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

1) Fair value hierarchy December 31, 2021

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

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December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Listed ordinary 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>
Financial assets at FVTOCI				
Investments in debt instruments				
Fixed income bonds	<u>\$ -</u>	<u>\$ 247,974</u>	<u>\$ -</u>	<u>\$ 247,974</u>

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2021 and 2020.

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

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Financial assets at FVTPL</u>		
Balance, beginning of period	\$ 52,579	\$ 45,423
Purchases	100,554	10,000
Disposals	(750)	(483)
Recognized in profit or loss(other income or loss)	4,428	(914)
Effect of foreign exchange differences	(736)	(1,447)
Balance, end of period	<u>\$ 156,075</u>	<u>\$ 52,579</u>

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

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

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

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

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 531,997	\$ 234,662
Amortized cost (Note 1)	16,433,676	7,203,983
Financial assets at FVTOCI		
Investments in debt instruments	233,994	247,974
<u>Financial liabilities</u>		
Amortized cost (Note 2)	9,703,183	3,782,549

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

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

d. Financial risk management objectives and policies

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

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

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

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

1) Market risk

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

a) Foreign exchange risk

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

Sensitivity analysis

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

USD Impact	
For the Years Ended December 31	
2021	2020

Profit or loss/ equity	<u>\$ 271,944</u> (i)	<u>\$ 59,478</u> (i)
------------------------	--------------------------	-------------------------

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

b) Interest rate risk

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

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

	December 31	
	2021	2020
Fair value interest rate risk		
Financial assets	<u>\$ 6,405,608</u>	<u>\$ 1,975,397</u>
Financial liabilities	<u>\$ 1,088,552</u>	<u>\$ 523,648</u>
Cash flow interest rate risk		
Financial assets	<u>\$ 4,241,431</u>	<u>\$ 3,777,910</u>

Sensitivity analysis

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

If interest rates had been 25 basis points higher/ lower and all other variables were held constant, the Company's pre-tax profit for the year ended December 31, 2021 and 2020 would increase/ decrease by NT\$10,604 thousand and NT\$9,445 thousand, respectively.

2) Credit risk

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

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

As of December 31, 2021, accounts receivables from top 5 customers are 63% of total accounts receivables. The credit concentration risk of other accounts receivables was insignificant.

Credit risk management for investments in debt instruments

The Company's investments in debt instruments are financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Company's policy allows it only to invest in those with credit ratings equal to or higher than the investment grade and with low credit risk after the impairment assessment. Credit rating information is provided by independent rating institutions. The Company continuously tracks external rating information to monitor changes in credit risk of the invested debt instruments, and also examines other information such as the bond yield curve and material information concerning the debtors to assess whether the credit risk of the debt instrument investment has increased significantly after the original recognition. The Company assesses the 12-month expected credit loss based on the probability of default and loss given default provided by external credit rating agencies. The current credit risk assessment policies and carrying amount of investments in debt instruments for each credit rating are as follows:

Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2021
-----------------	--------------------	---	-----------------------------------	--

Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 233,944</u>
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Category	Description	Basis for Recognizing Expected Credit Loss	Expected Credit Loss Ratio	Carrying Amount as of December 31, 2020
-----------------	--------------------	---	-----------------------------------	--

Performing	The debtor with low credit risk and fully capable of paying off contractual cash flows	12 months expected credit loss	0%	<u>\$ 247,974</u>
------------	--	--------------------------------	----	-------------------

3) Liquidity risk

The Company manages its liquidity risk by monitoring and maintaining adequate cash and cash equivalents to fund its operations and mitigate the impacts of fluctuations in cash flows.

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

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

December 31, 2021

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

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December 31, 2020

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

31. TRANSACTIONS WITH RELATED PARTIES

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

	For the Year Ended December 31	
	2021	2020
Long-term employee benefits	\$ 11,548	\$ 20,629
Short-term employee benefits	109,734	54,148
Post-employment benefits	488	459
Share-based payments	<u>48,275</u>	<u>3,888</u>
	<u>\$ 170,045</u>	<u>\$ 79,124</u>

32. PLEDGED ASSETS

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

	December 31	
	2021	2020
Properties, plants and equipment – net of buildings	\$ 510,257	\$ 524,487
Properties, plants and equipment –Construction in progress	1,071,400	-
Pledge deposits (categorized in other non-current assets)	<u>4,000</u>	<u>4,000</u>
	<u>1,585,657</u>	<u>528,487</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

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

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

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December 31, 2021

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

December 31, 2020

	<u>Foreign Currencies</u> <u>(thousand)</u>	<u>Exchange Rate</u>	<u>NT\$(thousand)</u>
<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

35. ADDITIONAL DISCLOSURES

(1) Information about significant transactions and investees :

- a. Financings provided to others: See Table 1 attached;
- b. Endorsement/guarantee provided: See Table 2 attached;
- c. Marketable securities held (excluding investments in subsidiaries and associates): See Table 3 attached;
- d. Marketable securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20 percent of the paid-in capital: None;
- e. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: See Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;
- i. Information about the derivative financial instruments transaction: None;
- j. Others: The business relationship between the parent and the subsidiaries and significant transactions between them: See Table 5 attached;

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

(3) Information on investment in Mainland China:

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

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- (4) Information of major shareholders: There are no shareholders holding more than 5% of the Company's shares for the year ended December 31, 2021.

36. SEGMENT INFORMATION

a. Operating segments

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

b. Revenue from major products and services

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

	For the Year Ended December 31	
	2021	2020
IC for Human-Machine Interface Solutions	<u>\$ 21,991,497</u>	<u>\$ 13,800,348</u>

c. Geographical information

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

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2021	2020	2021	2020
China	\$ 18,929,282	\$ 12,527,084	\$ 1,256,858	\$ 1,304,279
Taiwan	2,856,250	1,121,492	4,100,720	253,328
Others	<u>205,965</u>	<u>151,772</u>	<u>-</u>	<u>-</u>
	<u>\$ 21,991,497</u>	<u>\$ 13,800,348</u>	<u>\$ 5,357,578</u>	<u>\$ 1,557,607</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:

	For the Year Ended December 31			
	2021		2020	
	Sales amount	Percentage	Sales amount	Percentage
Custom A and subsidiaries	\$ 2,943,186	13	\$ NA(Note)	NA
Custom B and subsidiaries	NA(Note)	NA	1,539,211	11
Custom C and subsidiaries	NA(Note)	NA	2,060,074	15
Custom D and subsidiaries	2,328,269	11	1,666,900	12
Custom E and subsidiaries	2,859,803	13	NA(Note)	NA

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

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FocalTech Systems Co., Ltd. and Subsidiaries
FINANCINGS PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2021

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

No (Note 1)	Financing Company	Counterparty	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn (Note 4)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)	Note
													Item	Value			
1	FocalTech Systems, Ltd.	FocalTech Systems Co., Ltd.	Other receivables from related parties	Yes	\$ 1,660,800 (USD 60,000)	\$ 1,660,800 (USD 60,000)	\$ -	-	The need for short- term financing	\$ -	Operating capital	\$ -	-	-	\$ 2,382,050	\$ 2,382,050	Note 3

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

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

Note 2: The lending limits:

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

Note 3: The balances have been eliminated on consolidation.

Note 4: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

TABLE 2

FocalTech Systems Co., Ltd. and Subsidiaries
ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2021

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

No. (Note1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Period (Note 5)	Ending Balance (Note 5)	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements(%)	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	FocalTech Systems Co., Ltd.	FocalTech Systems, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	\$ 6,812,831	\$ 1,245,600 (USD 45,000)	\$ 1,245,600 (USD 45,000)	\$ -	\$ -	9.14%	\$ 6,812,831	Y	N	N	(Note 3)
0	FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	1,262,326 (USD 45,604)	1,262,326 (USD 45,604)	-	-	9.26%	6,812,831	Y	N	N	(Note 3)
0	FocalTech Systems Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	1,577,760 (USD 57,000)	1,577,760 (USD 57,000)	14,815	-	11.58%	6,812,831	Y	N	Y	(Note 3 and 6)
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	1,909,920 (USD 69,000)	1,909,920 (USD 69,000)	85,841	-	14.02%	6,812,831	Y	N	Y	(Note 3 and 6)
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	196,880	96,880	-	-	0.71%	6,812,831	Y	N	N	(Note 4 and 5)
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	96,880 (USD 3,500)	96,880 (USD 3,500)	-	-	0.71%	6,812,831	Y	N	N	(Note 4)
1	FocalTech Systems (Shenzhen) Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	The endorser/ guarantor parent company owns directly and indirectly 100% voting shares of the endorsed/guaranteed company.	1,199,837	434,150 (CNY 100,000)	434,150 (CNY 100,000)	301,712	434,150	36.18%	1,199,837	N	N	Y	-

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

1) 0 for parent company.

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

Note 2: Limits on Endorsement/ Guarantee Amount

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

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

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

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

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

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TABLE 2

Note 3: FocalTech Systems Co., Ltd. provided USD 45,000 thousand of endorsements/guarantees for FocalTech Electronics Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$0, NT\$0, NT\$0, and NT\$ 31,607 thousand respectively.

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

Note 5: FocalTech Systems Co., Ltd. provided NT\$ 100,000 thousand of endorsements/guarantees for FocalTech Smart Sensors Co., Ltd..

Note 6: FocalTech Systems Co., Ltd. provided USD 5,000 thousand of endorsements/guarantees for Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 7: Using the exchange rate of 1 USD: 27.68 NTD and 1 RMB: 4.3415 NTD as of December 31, 2021.

TABLE 3

FocalTech Systems Co., Ltd. and Subsidiaries
 MARKETABLE SECURITIES HELD
 DECEMBER 31, 2021

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2021				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
FocalTech Systems Co., Ltd.	<u>Stock</u>							
	Common stock of Wisdom Marine Lines Co., Ltd. (CAYMAN)	-	Financial assets at fair value through profit or loss - current	1,461,000	NT\$ 119,218	0.20	NT\$ 119,218	
	Class B Preferred Stock of Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - non current	170,000	NT\$ 10,727	0.03	NT\$ 10,727	
	Class A Preferred Stock of WT Microelectronics Co., Ltd.	-	"	2,882,000	NT\$ 141,074	2.13	NT\$ 141,074	
	<u>Privately Offered Fund</u>							
	CDIB Capital Healthcare Ventures II Limited Partnership	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 12,581	0.96	NT\$ 12,581	
	CDIB Capital Growth Partners L.P.	-	"	-	NT\$ 32,820	0.66	NT\$ 32,820	
CDIB-Innolux Limited Partnership	-	"	-	NT\$ 12,211	4.37	NT\$ 12,211		
Cathay Private Equity Smart Tech Limited Partnership	-	"	-	NT\$ 74,858	35.71	NT\$ 74,858		
FocalTech Systems, Ltd.	<u>Structured product</u>							
	CLN Link HSBC SUB	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 52,356 (USD 1,891)		NT\$ 52,356 (USD 1,891)	
	CLN Link Barclays SUB	-	"	-	NT\$ 52,547 (USD 1,898)		NT\$ 52,547 (USD 1,898)	
	<u>Fixed income bond</u>							
	Azure Nova International Finance Limited Maturity Date : March 21, 2022	-	Financial assets at fair value through other comprehensive income - current	-	NT\$ 55,590 (USD 2,008)		NT\$ 55,590 (USD 2,008)	
	Bank of China Limited Maturity Date : November 13, 2024	-	Financial assets at fair value through other comprehensive income - non current	-	NT\$ 128,292 (USD 4,635)		NT\$ 128,292 (USD 4,635)	
	Industrial and Commercial Bank of China Limited Maturity Date : September 21, 2025	-	"	-	NT\$ 50,112 (USD 1,810)		NT\$ 50,112 (USD 1,810)	
FocalTech Electronics, Ltd.	<u>Privately Offered Fund</u>							
	TIEF Fund, L.P.	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 23,605 (USD 853)	4.83	NT\$ 23,605 (USD 853)	

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

Note 2 : Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

FocalTech Systems Co., Ltd. and Subsidiaries
 ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company Name	Types of Property	Date of the Event	Transaction Amount	Status of payment	Counterparty	Relationship	Information on prior transaction if the counterparty is a related party				Basis or reference used in setting the price	Purpose of acquisition and utilization	Other Terms
							Owner	Relationship with the company	Date of transfer	Amount			
FocalTech Systems Co., Ltd.	Commercial building	May 28, 2021	\$1,071,400	Based on the terms in the contract	MADISON ASSET MANAGEMENT CORP.	-	Not applicable	Not applicable	Not applicable	Not applicable	Market price and real estate assessment report	Office building for own-use	None

Note 1: Fill in the column the “Basis or reference used in setting the price” if an appraisal report issued by a professional appraiser shall be obtained.

Note 2: Pain-in capital means the shares that the Company issued and fully paid. In the case of the company whose shares have no par value or a par value other than NT\$10, the term “20% of the company’s paid-in capital” used herein shall be calculated based on the equity attributable to shareholders of the parent in the balance sheet.

Note 3: “Date of the Event” used herein means, the contract date, the payment date, the transaction date, the title transfer date, the date of relevant board resolutions or other dates in which the transaction parties and the transaction amount can be ascertained (whichever is earlier).

TABLE 5

FocalTech Systems Co., Ltd. and Subsidiaries
 INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (Amount in Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counterparty	Nature of Relationship (Note 3)	Intercompany Transactions			
				Financial Statements Item	Amount (Note 4)	Terms	Percentage of Consolidated Net Revenue or Total Assets
0	FocalTech Systems Co., Ltd.	FocalTech Systems, Ltd.	1	Unearned Receipts- related parties	\$ 198,797	Note 2	0.78%
0	FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	1	Accounts Payables	515,551	Note 2	2.04%
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	1	Accounts Payables	14,985	Note 2	0.06%
				Cost of Revenue	38,340	Note 2	0.17%
1	FocalTech Electronics, Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	2	Research and development expenses	58,728	Note 2	0.27%
1	FocalTech Electronics, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	70,701	Note 2	0.28%
			2	Cost of Revenue	29,099	Note 2	0.13%
2	FocalTech Systems, Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	2	Research and development expenses	65,465	Note 2	0.30%
2	FocalTech Systems, Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Research and development expenses	34,233	Note 2	0.16%
2	FocalTech Systems, Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	2	Other Receivables	275,892	Note 2	1.09%
2	FocalTech Systems, Ltd.	FocalTech Smart Sensors, Ltd.	2	Research and development expenses	42,014	Note 2	0.19%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	2	Accounts Payables	240,582	Note 2	0.95%
			2	Research and development expenses	20,045	Note 2	0.09%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Systems (Shenzhen) Co., Ltd.	2	Other Payables	290,421	Note 2	1.15%
			2	Research and development expenses	642,228	Note 2	2.92%
3	FocalTech Electronics (Shenzhen) Co., Ltd.	FocalTech Electronics (Shanghai) Co., Ltd.	2	Other Payables	42,123	Note 2	0.17%
			2	Selling and marketing expenses	45,536	Note 2	0.21%
4	FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	2	Other Receivables	299,652	Note 2	1.18%
5	FocalTech Systems, Inc.	FocalTech Systems, Ltd.	2	Service revenue	21,287	Note 2	0.1%

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

1) 0 for parent company.

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

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

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

1) The Company to the consolidated subsidiary.

2) The consolidated subsidiary to another consolidated subsidiary.

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

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

TABLE 6

FocalTech Systems Co., Ltd. and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)

(Note 1)

FOR THE YEAR ENDED DECEMBER 31, 2021

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021			Net Income (Losses) of the Investee (Note 4)	Share of Profits/Losses of Investee (Note 4)	Note
				December 31,2021 (Note 2)	December 31,2020 (Note 3)	Shares	Percentage of Ownership	Carrying Value (Note 2)			
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Cayman Islands	Investment activity	NT\$ 7,059,264	NT\$ 7,059,264	5,491,200	100%	NT\$ 2,500,591 (USD 90,339)	(NT\$ 660,388) (USD 23,578)	(NT\$ 660,388) (USD 23,578)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Cayman Islands	Investment activity	NT\$ 2,768 (USD 100)	NT\$ 2,848 (USD 100)	2	100%	NT\$ 1,543,791 (USD 55,773)	NT\$ 15,502 (USD 553)	NT\$ 15,502 (USD 553)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 85,350	NT\$ -	3,000,000	9.14%	NT\$ 6,074 (USD 219)	(NT\$ 47,944) (USD 1,712)	(NT\$ 4,382) (USD 156)	Subsidiary
FocalTech Systems Co., Ltd.	Vitrio Technology Corporation	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ 4,970	NT\$ 4,970	142,000	50.00%	NT\$ -	(NT\$ 3,341)	NT\$ -	Joint Venture
FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 238,821	NT\$ 238,821	18,813,050	57.31%	NT\$ 38,091 (USD 1,376)	(NT\$ 47,944) (USD 1,712)	(NT\$ 27,477) (USD 981)	Subsidiary
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ 11,990	NT\$ 11,990	17,417,000	100%	(NT\$ 289,349)	(NT\$ 87,310)	(NT\$ 87,310)	Subsidiary
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	U.S.A	Investment activity	NT\$ 2,831,466 (USD 102,293)	NT\$ 2,913,300 (USD 102,293)	100	100%	NT\$ 2,312,135 (USD 83,531)	(NT\$ 653,934) (USD 23,347)	(NT\$ 653,934) (USD 23,347)	Subsidiary
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Cayman Islands	Investment activity	NT\$ 646,330 (USD 23,350)	NT\$ 665,010 (USD 23,350)	2	100%	NT\$ 2,382,050 (USD 86,057)	(NT\$ 654,693) (USD 23,374)	(NT\$ 654,693) (USD 23,374)	Subsidiary
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Taiwan	Import and export of integrated circuits	NT\$ 20,000	NT\$ 20,000	2,000,000	100%	NT\$ 110,304 (USD 3,985)	(NT\$ 29,260) (USD 1,045)	(NT\$ 29,260) (USD 1,045)	Subsidiary

Note 1: Please refer to the table 7 for the information on investment in Mainland China.

Note 2: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

Note 3: Using the exchange rate of 1 USD: 28.48 NTD as of December 31, 2020.

Note 4: Using the average exchange rate of 1 USD: 28.009 NTD for year ended December 31, 2021.

TABLE 7

FocalTech Systems Co., Ltd. and Subsidiaries
 INFORMATION ON INVESTMENT IN MAINLAND CHINA
 FOR YEAR ENDED DECEMBER 31, 2021

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

Investee company	Main businesses and products	Total amount of paid-in capital (Note 1)	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2021 (Note 1)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2021 (Note 1)	Net income (loss) of investee company (Note 2)	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of December 31, 2021 (Note 1)	Accumulated inward remittance of earnings as of December 31, 2021	Note
					Outflow	Inflow							
FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	NT\$ 55,360 (USD 2,000)	(Note 3 and 4)	NT\$ 27,680 (USD 1,000)	\$ -	\$ -	NT\$ 27,680 (USD 1,000)	(NT\$ 6,034) (USD 215)	100%	(NT\$ 6,034) (USD 215)	NT\$ 29,525 USD 1,067	\$ -	-
FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	NT\$ 63,664 (USD 2,300)	(Note 3)	NT\$ 27,680 (USD 1,000)	-	-	NT\$ 27,680 (USD 1,000)	NT\$ 199,146 (USD 7,110)	100%	NT\$ 199,146 (USD 7,110)	NT\$ 257,102 (USD 9,288)	-	-
FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	NT\$ 1,024,164 (USD 37,000)	(Note 4)	-	-	-	-	(NT\$ 236,158) (USD 8,432)	100%	(NT\$ 236,158) (USD 8,432)	NT\$ 1,199,837 (USD 43,347)	-	-
Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	NT\$ 130,245 (RMB 30,000)	(Note 4)	-	-	-	-	NT\$ 13,371 (USD 477)	100%	NT\$ 13,371 (USD 477)	NT\$ 229,356 (USD 8,286)	-	-

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$55,360 (USD2,000)	\$1,673,730 (USD60,467)	\$8,175,396

Note 1: Using the exchange rate of 1 USD: 27.68 NTD and 1 RMB :4.3415 NTD as of December 31, 2021.

Note 2: Using the average exchange rate of 1 USD: 28.009 NTD and 1 RMB :4.3417 NTD for nine months ended December 31, 2021.

Note 3: Indirect investment in Mainland China through a holding company established in other countries.

Note 4: The investment is through the foreign subsidiaries, has not been remitted from Taiwan.

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, 2021 and 2020, and the related statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, 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 exists the pressure to achieve the financial target, and it might result in the risk of the occurrence of sales revenue. Therefore, the sales revenue of Integrated Driver Controller is listed in the Key Audit Matters of 2021.

Refer to Notes 4,22 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 2021, 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 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.

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

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 years ended December 31, 2021 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

February 23, 2022

FOCALTECH SYSTEMS CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2021		2020	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 4 and 6)	\$ 5,073,919	21	\$ 2,455,926	21
Financial assets at fair value through profit or loss -current (Note 4 and 7)	119,218	1	-	-
Accounts receivables, net (Note 4 , 9 and 30)	2,910,667	12	1,445,186	12
Inventories (Note 4 and 10)	2,654,159	11	1,215,281	11
Other financial assets (Note 4 and 8)	3,086,830	13	170,880	2
Other current assets (Note 24 and 30)	<u>162,403</u>	<u>1</u>	<u>162,403</u>	<u>1</u>
Total current assets	<u>14,058,343</u>	<u>59</u>	<u>5,449,676</u>	<u>47</u>
NON-CURRENT ASSETS				
Financial asset at fair value through profit or loss - non-current (Note 4 and 7)	284,271	1	97,139	1
Investments accounted for using equity method (Note 4 and 11)	4,050,456	17	4,537,073	39
Property, plant and equipment (Note 4 and 12)	1,197,523	5	15,226	-
Goodwill (Notes 4 and 13)	1,237,268	6	1,237,268	11
Other intangible assets (Notes 4 and 14)	44,181	-	59,498	-
Deferred income tax assets (Notes 4 and 24)	4,857	-	65,898	1
Refundable deposits(Notes 15)	<u>2,826,852</u>	<u>12</u>	<u>145,604</u>	<u>1</u>
Total non-current assets	<u>9,645,408</u>	<u>41</u>	<u>6,157,706</u>	<u>53</u>
TOTAL	<u>\$ 23,703,751</u>	<u>100</u>	<u>\$ 11,607,382</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ -	-	\$ 480,000	4
Accounts payables (Note 17 and 30)	2,824,379	12	1,936,299	17
Other payables (Note 18)	416,425	2	339,556	3
Current tax liabilities (Note 4 and 24)	1,366,072	6	108,514	1
Other current liabilities(Note 22 and 30)	<u>211,959</u>	<u>1</u>	<u>360,915</u>	<u>3</u>
Total current liabilities	<u>4,818,835</u>	<u>21</u>	<u>3,225,284</u>	<u>28</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 16)	786,400	3	-	-
Deferred income tax liabilities (Notes 4 and 24)	51,584	-	53,213	1
Net defined benefit liabilities - non-current (Notes 4 and 19)	22,140	-	23,366	-
Guarantee deposits received(Notes 20)	4,388,290	19	482,276	4
Other non-current liabilities	<u>10,400</u>	<u>-</u>	<u>10,400</u>	<u>-</u>
Total non-current liabilities	<u>5,259,254</u>	<u>22</u>	<u>569,255</u>	<u>5</u>
Total liabilities	<u>10,078,089</u>	<u>43</u>	<u>3,794,539</u>	<u>33</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4 , 21 and 26)				
Share capital				
Ordinary shares	<u>2,162,367</u>	<u>9</u>	<u>2,103,532</u>	<u>18</u>
Capital surplus				
Additional paid-in capital	4,737,390	20	4,725,445	41
Treasury shares	79,917	-	69,361	1
Employee share options	65,873	-	14,903	-
Restricted stock for employees	1,145,555	5	-	-
Employee share options - expired	<u>34,134</u>	<u>-</u>	<u>33,933</u>	<u>-</u>
Total capital surplus	<u>6,062,869</u>	<u>25</u>	<u>4,843,642</u>	<u>42</u>
Retained earnings				
Legal reserve	101,230	-	-	-
Special reserve	122,316	1	-	-
Undistributed earnings	<u>6,202,079</u>	<u>26</u>	<u>1,012,301</u>	<u>8</u>
Total retained earnings	<u>6,425,625</u>	<u>27</u>	<u>1,012,301</u>	<u>8</u>
Other equity				
Exchange differences from translating the financial statements of foreign operations	(211,648)	(1)	(125,038)	(1)
Unrealized loss on financial assets at fair value through other comprehensive income	169	-	2,722	-
Unrealized employee compensation	<u>(813,720)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
Total other equity	<u>(1,025,199)</u>	<u>(4)</u>	<u>(122,316)</u>	<u>(1)</u>
Treasury shares	-	-	<u>(24,316)</u>	<u>-</u>
Total equity	<u>13,625,662</u>	<u>57</u>	<u>7,812,843</u>	<u>67</u>
TOTAL	<u>\$ 23,703,751</u>	<u>100</u>	<u>\$ 11,607,382</u>	<u>100</u>

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, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2021		2020	
	Amount	%	Amount	%
REVENUE (Note 4 ,22 and 30)	\$ 18,335,785	100	\$ 11,410,350	100
COSTS OF SALES (Notes 4,10,23 and 30)	<u>(8,831,939)</u>	<u>(48)</u>	<u>(8,811,546)</u>	<u>(77)</u>
GROSS PROFIT	<u>9,503,846</u>	<u>52</u>	<u>2,598,804</u>	<u>23</u>
OPERATING EXPENSES (Notes 23,26, 27 and 30)				
Selling and marketing expenses	(199,670)	(1)	(186,571)	(2)
General and administrative expenses	(325,796)	(2)	(225,572)	(2)
Research and development expenses	<u>(1,247,606)</u>	<u>(7)</u>	<u>(958,867)</u>	<u>(8)</u>
Total operating expenses	<u>(1,773,072)</u>	<u>(12)</u>	<u>(1,371,010)</u>	<u>(12)</u>
OPERATIONS INCOME	<u>7,730,774</u>	<u>42</u>	<u>1,227,794</u>	<u>11</u>
NON-OPERATING INCOME AND EXPENSES				
Finance costs (Note 23)	(8,130)	-	(1,892)	-
Share of loss of subsidiaries and joint ventures(Note4)	(649,268)	(4)	(16,072)	-
Interest income (Note 4)	9,364	-	6,297	-
Gain (Loss)n on financial assets and liabilities at fair value through profit or loss (Notes 4)	87,748	1	(2,484)	-
Other gains and losses, net	373,371	2	(19,784)	(1)
Loss on foreign currency exchange(Note 4)	<u>(67,933)</u>	<u>-</u>	<u>(17,880)</u>	<u>-</u>
Total non-operating income and expenses	<u>(254,848)</u>	<u>(1)</u>	<u>(51,815)</u>	<u>(1)</u>
INCOME BEFORE INCOME TAX	7,475,926	41	1,175,979	10
INCOME TAX EXPENSE (Notes 4 and 24)	<u>(1,362,991)</u>	<u>(8)</u>	<u>(163,987)</u>	<u>(1)</u>
NET INCOME	<u>6,112,935</u>	<u>33</u>	<u>1,011,992</u>	<u>9</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 19)	751	-	359	-
Income tax related to items that will not be reclassified subsequently to profit or loss (Notes 4 and 24)	<u>(105)</u>	<u>-</u>	<u>(50)</u>	<u>-</u>
	<u>646</u>	<u>-</u>	<u>309</u>	<u>-</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2021		2020	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences from translating the financial statements of foreign operations (Notes 4)	\$ (89,163)	-	\$ (128,123)	(1)
Total other comprehensive Loss (net of income tax)	<u>(88,517)</u>	<u>-</u>	<u>(127,814)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 6,024,418</u>	<u>33</u>	<u>\$ 884,178</u>	<u>8</u>
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 30.23</u>		<u>\$ 3.97</u>	
Diluted	<u>\$ 28.62</u>		<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, 2021 AND 2020
(In Thousands of New Taiwan Dollars)

	Share Capital		Retained Earnings			Other Equity				Total Equity
	Ordinary Shares	Capital Surplus	Legal Reserve	Special Reserve	Undistributed Earnings	Exchange Differences from Translating Financial Statement of Foreign Operations	Unrealized Gains(losses) on Financial Assets at Fair Value through Other comprehensive income	Unearned employee compensation	Treasury Shares	
BALANCE, JANUARY 1, 2020	\$ 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 income 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 21)	(899,721)	-	-	-	-	-	-	-	5,191	(894,530)
Treasury shares transferred to employees (Note 21 and 26)	-	1,228	-	-	-	-	-	-	237,651	238,879
Compensation cost of employee share options (Note 21 and 26)	-	21,279	-	-	-	-	-	-	-	21,279
Issuance of ordinary shares from exercise of employee share options (Note 21 and 26)	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
Appropriation of 2020 earnings										
Legal reserve	-	-	101,230	-	(101,230)	-	-	-	-	-
Special reserve	-	-	-	122,316	(122,316)	-	-	-	-	-
Cash dividends	-	-	-	-	(700,000)	-	-	-	-	(700,000)
Net income for the year ended December 31, 2021	-	-	-	-	6,112,935	-	-	-	-	6,112,935
Other comprehensive loss for the year ended December 31, 2021 net of income tax	-	-	-	-	646	(86,610)	(2,553)	-	-	(88,517)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	6,113,581	(86,610)	(2,553)	-	-	6,024,418
Compensation cost of employee share options (Note 21 and 26)	-	66,351	-	-	-	-	-	-	-	66,351
Treasury shares transferred to employees (Note 21 and 26)	-	1,947	-	-	-	-	-	-	23,945	25,892
Treasury shares retired	(119)	(252)	-	-	-	-	-	-	371	-
Changes in ownership interests in subsidiaries	-	-	-	-	(257)	-	-	-	-	(257)
Issuance of ordinary shares from exercise of employee share options (Note 21 and 26)	3,764	5,626	-	-	-	-	-	-	-	9,390
Issuance of restricted stock for employees (Note 4, 21 and 26)	55,190	1,145,555	-	-	-	-	-	(1,145,555)	-	55,190
Compensation cost of restricted stock of employees (Note 4, 21 and 26)	-	-	-	-	-	-	-	331,835	-	331,835
BALANCE AT DECEMBER 31, 2021	\$ 2,162,367	\$ 6,062,869	\$ 101,230	\$ 122,316	\$ 6,202,079	\$ (211,648)	\$ 169	\$ (813,720)	\$ -	\$ 13,625,662

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, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operation	\$ 7,475,926	\$ 1,175,979
Adjustments for:		
Depreciation expenses	18,470	10,567
Amortization expenses	15,317	15,609
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(87,748)	2,484
Finance costs	8,130	1,892
Interest income	(9,364)	(6,297)
Compensation cost of employee share options	27,008	12,433
Compensation cost of restricted stock to employees	204,457	-
Share of loss of subsidiaries and joint ventures	649,268	16,072
Loss on disposal of investments	183,272	40,928
Reversal of write-down of inventories	(319,202)	(131,157)
Changes in operating assets and liabilities		
Increase in financial assets mandatorily classified as at fair value through profit or loss	(35,330)	(112,702)
Accounts receivables	(1,465,481)	(904,632)
Inventories	(1,119,676)	(467,009)
Other current assets	(50,351)	77,154
Accounts payables	888,080	1,235,756
Other payables	76,869	148,644
Other current liabilities	(148,964)	199,706
Net defined benefit liabilities	(475)	(353)
Cash generated from operations	5,943,662	1,315,074
Interest paid	(8,122)	(1,686)
Income tax paid	(45,595)	-
Net cash inflow from operating activities	<u>5,889,945</u>	<u>1,313,388</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using equity method	(85,350)	(4,970)
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	(1,200,767)	(6,385)
Increase in other financial assets	(2,915,950)	(170,880)
Increase in refundable deposits	(2,681,248)	(33,054)
Interest received	8,037	7,760
Net cash (outflow) inflow from investing activities	<u>(6,875,278)</u>	<u>246,518</u>

(Continued)

FOCALTECH SYSTEMS CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (In Thousands of New Taiwan Dollars)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) Increase in short-term borrowings	\$ (480,000)	\$ 480,000
Increase in long-term borrowings	786,840	-
Increase in guarantee deposits received	3,906,014	364,682
Issuance of restricted stock for employees	55,190	-
Cash dividends paid	(700,000)	(150,000)
Capital reduction payments to shareholders	-	(894,530)
Proceeds from issuance ordinary shares under employee share options	9,390	15,559
Treasury shares transferred to employees	<u>25,892</u>	<u>238,879</u>
Net cash inflow from financing activities	<u>3,603,326</u>	<u>54,590</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,617,993	1,614,496
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,455,926</u>	<u>841,430</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 5,073,919</u>	<u>\$ 2,455,926</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, 2021 AND 2020 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on February 23, 2022.

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

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

The initial application of the amendments to the IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 (Interest Rate Benchmark Reform-Phase 2 and Covid-19-Related Rent Concessions beyond 30 June 2021) endorsed and issued in to effect by the FSC did not have a significant impact on the Group’s accounting policies.

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2022

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB</u>
Annual Improvements to IFRS Standards 2018–2020	January 1, 2022(Note 1)
Amendments to IFRS 3 “Reference to the Conceptual Framework”	January 1, 2022(Note 2)
Amendments to IAS 16 “Property, Plant and Equipment-Proceeds before Intended Use”	January 1, 2022(Note 3)
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022(Note 4)

Note 1: The amendments to IFRS 9 will be applied prospectively to modifications or 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 2: 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 3: 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 4: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

As of the date the financial statements were authorized for issue, the Company assessed the application of abovementioned standards and interpretations do not have significant impact on the Company's financial position and financial performance.

- c. The IFRSs issued by IASB, but not yet endorsed and issued into effect by the FSC

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Announced by IASB (Note 1)</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Amendments to IFRS 17 "Initial Application of IFRS 9 and IFRS 17- Comparative Information"	January 1, 2023
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2023
Amendments to IAS 1 "Disclosure of Accounting Policies"	January 1, 2023 (Note 2)
Amendments to IAS 8 "Definition of Accounting Estimates"	January 1, 2023 (Note 3)
Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"	January 1, 2023 (Note 4)

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

Note 3: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

Note 4: Except for deferred taxes that will be recognized on January 1, 2022 for temporary differences associated with leases and decommissioning obligations, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

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

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

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

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

When preparing the parent company only financial statements, the Company accounts for subsidiaries by using the equity method. In order to agree with the amount 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.

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 property, plant and equipment and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the 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 29.

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 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.

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

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 accounts receivables).

The loss allowance for accounts 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.

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-Machine Interface devices ICs. Revenue is recognized when the ICs start to be shipped or are delivered to the specific locations instructed by customers, at which time the customer has full discretion over the ICs. Revenue and accounts receivables are recognized concurrently.

The 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 a 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. Borrowing costs

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

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

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

p. 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 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.

The fair value at the grant date of the restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in other equity - unearned employee benefits.

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

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

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 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.

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 is 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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2021	2020
Cash on hand	\$ 625	\$ 381
Checking accounts and demand deposits	2,914,254	2,455,545
Cash equivalent (time deposits with original maturities less than three months)	<u>2,159,040</u>	<u>-</u>
	<u>\$ 5,073,919</u>	<u>\$ 2,455,926</u>

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Current</u>		
Mandatorily measured at fair value through profit or loss (FVTPL)		
Listed ordinary shares	\$ 119,218	\$ -
<u>Non-Current</u>		
Mandatorily measured at fair value through profit or loss (FVTPL)		
Listed preferred shares	\$ 151,801	\$ 72,186
Private Funds	<u>132,470</u>	<u>24,953</u>
	<u>\$ 284,271</u>	<u>\$ 97,139</u>

8. OTHER FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Time deposits with original maturities more than three months	\$ 3,086,830	\$ 170,880

9. ACCOUNTS RECEIVABLES, NET

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Accounts receivables	\$ 2,910,667	\$ 1,455,186

The average credit period on sales of goods was 30-120 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 accounts 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 accounts receivable.

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

December 31, 2021

	<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	\$2,684,629	\$ 226,038	\$ -	\$ -	\$ 2,910,667

December 31, 2020

	Non Past Due	Overdue 1-60 Days	Overdue 61-180 Days	Overdue Over 181 Days	Total
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>

10. INVENTORIES

	December 31	
	2021	2020
Finished goods	\$ 861,983	\$ 311,159
Work in progress	1,301,879	812,109
Raw materials and supplies	<u>490,297</u>	<u>92,013</u>
	<u>\$ 2,654,159</u>	<u>\$ 1,215,281</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2021 and 2020 was \$8,831,939 thousand and \$8,811,546 thousand, included gain from price recovery of inventory of \$319,202 thousand and \$131,157 thousand for the years ended December 31, 2021 and 2020, respectively. Above mentioned gains from price recovery of inventory are resulted from sales of slow moving inventory.

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2021	2020
Investments in subsidiaries	<u>\$ 4,050,456</u>	<u>\$ 4,537,073</u>

	December 31	
	2021	2020
Unlisted companies		
FocalTech Corporation, Ltd.	\$ 2,500,591	\$ 2,974,195
FocalTech Electronics, Ltd.	1,543,791	1,562,878
FocalTech Smart Sensors, Ltd.	<u>6,074</u>	<u>-</u>
	<u>\$ 4,050,456</u>	<u>\$ 4,537,073</u>

	Percentage of Ownership as of December 31	
	2021	2020
Unlisted companies		
FocalTech Corporation, Ltd.	100%	100%
FocalTech Electronics, Ltd.	100%	100%
FocalTech Smart Sensors, Ltd.(a)	9.14%	-

a. The Company and its subsidiary hold 9.14% and 57.31% of the issued share of FocalTech Electronics Co., Ltd.. Since the Company had control over FocalTech Electronics Co., Ltd., it was listed as a subsidiary.

The share of profit or loss and other comprehensive income of these subsidiaries accounted for using the equity method recognized in 2021 and 2020 financial statements were based on the audited subsidiaries' financial statements of the corresponding periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Development Equipment	Office Equipment	Leasehold Improve- ments	Construction in progress	Total
<u>Cost</u>					
Balance at January 1, 2021	\$ 74,551	\$ 304	\$ 16,878	\$ -	\$ 91,733
Additions	120,637	-	-	1,080,130	1,200,767
Disposals	(5,185)	-	-	-	(5,185)
Balance at December 31, 2021	<u>\$ 190,003</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ 1,080,130</u>	<u>\$ 1,287,315</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2021	\$ 59,325	\$ 304	\$ 16,878	\$ -	\$ 76,507
Depreciation	18,470	-	-	-	18,470
Disposals	(5,185)	-	-	-	(5,185)
Balance at December 31, 2021	<u>\$ 72,610</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ -</u>	<u>\$ 89,792</u>
Carrying amounts at December 31, 2021	<u>\$ 117,393</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,080,130</u>	<u>\$ 1,197,523</u>
<u>Cost</u>					
Balance at January 1, 2020	\$ 73,167	\$ 304	\$ 16,878	\$ -	\$ 90,349
Additions	6,385	-	-	-	6,385
Disposals	(5,001)	-	-	-	(5,001)
Balance at December 31, 2020	<u>\$ 74,551</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ -</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	(5,001)	-	-	-	(5,001)
Balance at December 31, 2020	<u>\$ 59,325</u>	<u>\$ 304</u>	<u>\$ 16,878</u>	<u>\$ -</u>	<u>\$ 76,507</u>
Carrying amounts at December 31, 2020	<u>\$ 15,226</u>	<u>\$ -</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 pledged as collateral. Refer to Note 31.

13. GOODWILL

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</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 16.52% and 15.45% for the years ended December 31, 2021 and 2020, under the assumptions of management team judgments and historical experiences with regard to future growth rates and gross margin.

14. OTHER INTANGIBLE ASSETS

	Licenses and Franchises	Software	Patents	Trademark	Total
<u>Cost</u>					
Balance at January 1, 2021 and December 31, 2020	\$18,657	\$ 8,445	\$ 76,478	\$ 74,000	\$ 177,580
<u>Accumulated amortization</u>					
Balance at January 1, 2021	\$ 18,525	\$ 8,445	\$ 46,712	\$ 44,400	\$ 118,082
Amortization expense	<u>132</u>	<u>-</u>	<u>7,785</u>	<u>7,400</u>	<u>15,317</u>
Balance at December 31, 2021	<u>\$ 18,657</u>	<u>\$ 8,445</u>	<u>\$ 54,497</u>	<u>\$ 51,800</u>	<u>\$ 133,399</u>
Carrying amounts at December 31, 2021	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,981</u>	<u>\$ 22,200</u>	<u>\$ 44,181</u>
<u>Cost</u>					
Balance at January 1, 2020 and December 31, 2020	<u>\$ 18,657</u>	<u>\$ 8,445</u>	<u>\$ 76,478</u>	<u>\$ 74,000</u>	<u>\$ 177,580</u>
<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>
Carrying amounts at December 31, 2020	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ 29,766</u>	<u>\$ 29,600</u>	<u>\$ 59,498</u>

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. REFUNDABLE DEPOSITS

	December 31	
	2021	2020
Capacity guarantee deposits and others	<u>\$ 2,826,852</u>	<u>\$ 145,604</u>

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

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2021	2020
Unsecured bank loans	\$ -	\$ 480,000
Annual interest rate	-	0.88%~1.06%

b. Long-term borrowings

	December 31	
	2021	2020
Secured bank loans	\$ 786,840	\$ -
Annual interest rate	1.00%	-

The Company increased the long-term loans to acquire the commercial building. Properties, plants and equipment are pledged as collateral for long-term loans, please refer to Note 31.

17. ACCOUNTS PAYABLES

	December 31	
	2021	2020
Accounts payables	\$ 2,292,621	\$ 1,397,089
Accounts payables-related party	531,758	539,210
	<u>\$ 2,824,379</u>	<u>\$ 1,936,299</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.

18. OTHER PAYABLES

	December 31	
	2021	2020
Payable for salaries and bonus	\$ 306,928	\$ 238,059
Payable for labor, health and social insurance	12,450	12,450
Reserve for litigations	28,645	32,052
Payable for professional services and others	68,402	56,995
	<u>\$ 416,425</u>	<u>\$ 339,556</u>

19. 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.

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:

	December 31	
	2021	2020
Present value of defined benefit obligation	\$ 40,265	\$ 42,275
Fair value of plan assets	(18,125)	(18,909)
Net defined benefit liability	<u>\$ 22,140</u>	<u>\$ 23,366</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2021	<u>\$ 42,275</u>	(\$ 18,909)	<u>\$ 23,366</u>
Net interest expense (income)	<u>338</u>	(154)	<u>184</u>
Recognized in profit or loss	<u>338</u>	(154)	<u>184</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(90)	(90)
Actuarial loss - changes in financial assumptions	764	-	764
Actuarial loss - experience adjustments	(1,425)	-	(1,425)
Recognized in other comprehensive income	(661)	(90)	(751)
Contributions from the employer	-	(659)	(659)
Benefits paid	(1,687)	1,687	-
Balance at December 31, 2021	<u>\$ 40,265</u>	(\$ 18,125)	<u>\$ 22,140</u>
Balance at January 1, 2020	<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			
Return on plan assets (excluding amounts included in net interest)	-	(619)	(619)
Actuarial loss -demographic assumptions	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	<u>260</u>	(619)	(359)
Contributions from the employer	-	(716)	(716)
Benefits paid	(3,798)	3,798	-
Balance at December 31, 2020	<u>\$ 42,275</u>	(\$ 18,909)	<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:

	December 31	
	2021	2020
Discount rate	0.65%	0.8%
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:

	December 31	
	2021	2020
Discount rate		
0.25% increase	(<u>\$ 1,263</u>)	(<u>\$ 1,501</u>)
0.25% decrease	<u>\$ 1,314</u>	<u>\$ 1,566</u>
Expected rate of salary increase		
1% increase	<u>\$ 5,348</u>	<u>\$ 6,441</u>
1% decrease	(<u>\$ 4,670</u>)	(<u>\$ 5,567</u>)

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

	December 31	
	2021	2020
The expected contributions to the plan for the next year	<u>\$ 680</u>	<u>\$ 717</u>
The average duration of the defined benefit obligation	15.2 years	16.1 years

20. GUARANTEE DEPOSITS RECEIVED

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Capacity guarantee deposits and others	<u>\$ 4,388,290</u>	<u>\$ 482,276</u>

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

21. EQUITY

a. Share capital

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

	<u>December 31</u>	
	<u>2021</u>	<u>2020</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>216,237</u>	<u>210,353</u>
Shares issued	<u>\$ 2,162,367</u>	<u>\$ 2,103,532</u>

The company has redeemed 326 thousand shares of issued restricted stocks for employees during the year ended December 31, 2021. The registration processes have not been completed as of December 31, 2021.

b. Capital surplus

	Additional Paid-in Capital (1)	Treasury Shares (1)	Restricted stock for employees (2)	Employee Share Options (2)	Employee Share Options -Expired (1)	Total
BALANCE, JANUARY 1, 2021	\$4,725,556	\$ 69,361	\$ -	\$ 14,903	\$ 33,933	\$ 4,843,642
Treasury shares transferred to employees	-	1,947	-	-	-	1,947
Employee treasury shares vested	-	8,861	-	(8,861)	-	-
Treasury shares retired	-	(252)	-	-	-	(252)
Compensation cost of employee share options	-	-	-	66,351	-	66,351
Issuance of ordinary shares under employee share options	11,945	-	-	(6,319)	-	5,626
Employee share options expired	-	-	-	(201)	201	-
Issuance of restricted stock for employees	-	-	1,145,555	-	-	1,145,555
BALANCE AT DECEMBER 31, 2021	<u>\$4,737,390</u>	<u>\$ 79,917</u>	<u>\$ 1,145,555</u>	<u>\$ 65,873</u>	<u>\$ 34,134</u>	<u>\$ 6,062,869</u>
BALANCE, JANUARY 1, 2020	\$5,063,671	\$ 48,662	\$ -	\$ 25,510	\$ 33,534	\$ 5,145,377
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
Issuance 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>

3) 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).

4) 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' meeting held on June 20, 2019, which stipulate that earnings distribution may be made on a quarterly basis after the close of each quarter.

According to The Company's amended Articles of Incorporation, when the Company distributed earnings belonging to the first three quarters, it shall first estimate and reserve taxes to be paid, offset its deficits, estimate and reserve employees' compensation and remuneration to directors. Second, the Company set aside a legal capital reserve at 10% of the remaining earnings and set aside or reverse special reserve in accordance with the laws and regulations. Third any remaining profit along with any undistributed retained earnings at the beginning shall be used by the Company's board of directors. The board of directors shall propose the distribution of retained earnings after considering operational situations. When the retained earnings are distributed in form of stock, the resolution shall be approved by the shareholders' meeting. When the retained earnings are distributed in form of cash, the resolution shall be approved by the board of directors.

When the Company has earnings at the end of the year, it 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 propose a distribution for the remaining earnings, along with 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 remaining 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.

The Company's shareholders' meeting was held on June 20, 2020. The resolution was as follows. The Company offset the loss of NT\$183,307 thousand from additional paid-in capital and the cash distribution of NT\$150,000 thousand, i.e. NT\$0.50291032 per share, from additional paid-in capital of share issue premium.

To increase the return on shareholders' equity, the Company 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 fund of capital reduction was returned to the company's shareholders on October 28th, 2020.

The appropriation of earnings for 2020 was approved by the shareholders' meeting held on August 19th, 2021. The details of distribution are as follows:

	<u>2020</u>
Legal reserve	\$ 101,230
Special reserve	\$ 122,316
Cash dividends	\$ 700,000
Cash dividends per share	\$ 3.32

d. Special reserve

	<u>2021</u>
Balance, beginning	\$ -
Special reserve appropriated	122,316
Balance, ending	<u>\$ 122,316</u>

e. Treasury shares

	<u>Shares (In Thousands)</u>
Number of shares on January 1, 2020	10,978
Decrease during the period	(9,681)
Decrease due to capital reduction	<u>(519)</u>
Number of shares on December 31, 2020	<u>778</u>
Number of shares on January 1, 2021	778
Decrease during the period	<u>(778)</u>
Number of shares on December 31, 2021	<u>-</u>

The detailed information for other treasury shares transferred to employees programs could be found in Note 26 (b).

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

f. Unearned employee compensation

	<u>2021</u>
Balance, beginning	\$ -
Issuance of shares	(1,145,555)
Share-based payment expenses recognized	<u>331,835</u>
Balance, ending	(<u>\$ 813,720</u>)

The issuance of employee restricted share plan has been approved by shareholders' meeting held on June 20, 2020. The board of directors approved to issue 5,749 thousand and 236 thousand shares on April 7, 2021 and July 29, 2021, respectively. Please refer Note 26 (c) for the detailed information.

22. REVENUE

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
IC for Human-Machine Interface Solutions	\$ 18,335,785	\$ 11,366,680
Service revenue	<u>-</u>	<u>43,670</u>
	<u>\$ 18,335,785</u>	<u>\$ 11,410,350</u>
<u>Contract balances</u>		
	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
Contract liabilities (classified as current liabilities)		
Sales of goods	<u>\$ 6,951</u>	<u>\$ 106,683</u>

23. NET INCOME

a. Finance costs

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Interest on bank loans	\$ 7,690	\$ 814
Interest on deposits	<u>440</u>	<u>1,078</u>
	<u>\$ 8,130</u>	<u>\$ 1,892</u>

b. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Property, plant and equipment	\$ 18,470	\$ 10,567
Intangible assets	<u>15,319</u>	<u>15,609</u>
	<u>\$ 33,787</u>	<u>\$ 26,176</u>
An analysis of depreciation and amortization by function		
Operating costs	\$ 8,892	\$ 722
Operating expenses	<u>24,892</u>	<u>25,454</u>
	<u>\$ 33,787</u>	<u>\$ 26,176</u>

c. Employee benefits expense

	For the Year Ended December 31	
	2021	2020
Post-employment benefits		
Defined contribution plans	\$ 27,358	\$ 25,596
Defined benefit plans (see Note 19)	184	363
Share-based payments (see Note 26)	231,465	12,433
Other employee benefits	<u>1,132,215</u>	<u>833,872</u>
Total employee benefits expense	<u>\$ 1,391,222</u>	<u>\$ 872,264</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 224,807	\$ 94,586
Operating expenses	<u>1,166,415</u>	<u>777,678</u>
	<u>\$ 1,391,222</u>	<u>\$ 872,264</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. The accrued employees' compensation and remuneration to directors for the years ended December 31, 2021 and 2020 are as follows:

	For the Year Ended December 31	
	2021	2020
Employees' compensation	<u>\$ 316,730</u>	<u>\$ 123,450</u>
Remuneration of directors	<u>\$ 30,000</u>	<u>\$ 7,214</u>

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

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

	For the Year Ended December 31	
	2021	2020
Resolution Date of the Company's Board of Directors in its meeting	February 23, 2022	February 4, 2021
Employees' compensation	<u>\$ 316,730</u>	<u>\$ 123,450</u>
Remuneration of directors	<u>\$ 30,000</u>	<u>\$ 7,214</u>

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

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

24. INCOME TAXES

a. Income tax expense recognized in profit or loss

	For the Year Ended December 31	
	2021	2020
Current tax		
In respect of the current year	<u>\$1,303,684</u>	<u>\$108,514</u>
Deferred tax		
In respect of the current year	59,307	54,139
Adjustments for prior years	<u>-</u>	<u>1,334</u>
	<u>59,307</u>	<u>55,473</u>
Income tax expense recognized in profit or loss	<u>\$1,362,991</u>	<u>\$163,987</u>

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

	For the Year Ended December 31	
	2021	2020
Income before tax from continuing operations	<u>\$ 7,475,926</u>	<u>\$1,175,979</u>
Income tax expense calculated at the statutory rate and the effective tax rate	\$1,046,630	\$ 164,637
Nondeductible expenses in determining taxable income	-	5,730
Tax effect of earnings to be distributed by subsidiaries	429	21,734
Tax exemption	(37,877)	-
Unrecognized temporary differences	89,897	(29,448)
Adjustments for prior years' tax	-	1,334
Tax effects from investment tax credit rate less than 30%	<u>263,912</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$1,362,991</u>	<u>\$ 163,987</u>

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

b. Current tax assets and liabilities

	For the Year Ended December 31	
	2021	2020
Current tax assets(recorded as other current assets)		
Tax refund receivable	<u>\$ 1,501</u>	<u>\$ 2,032</u>

c. Recognized in other comprehensive income

	For the Year Ended December 31	
	2021	2020
Deferred tax		
Remeasurement of defined benefit plans	<u>\$ 105</u>	<u>\$ 50</u>

d. Deferred tax assets and liabilities

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

2021

	<u>Beginning Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Ending Balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Obsolete of inventory	\$ 71,336	(\$ 60,557)	\$ -	\$ 10,779
Others	(5,438)	(379)	(105)	(5,922)
	<u>\$ 65,898</u>	<u>(\$ 60,936)</u>	<u>(\$ 105)</u>	<u>\$ 4,857</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Intangible assets	\$ 8,232	(\$ 2,058)	\$ -	\$ 6,174
Investment income recognized from foreign investees	44,981	429	-	45,410
	<u>\$ 53,213</u>	<u>(\$ 1,629)</u>	<u>\$ -</u>	<u>\$ 51,584</u>

2020

	<u>Beginning Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Ending Balance</u>
<u>Deferred tax assets</u>				
Temporary differences				
Obsolete of inventory	\$ 89,699	(\$ 18,363)	\$ -	\$ 71,336
Others	623	(6,011)	(50)	(5,438)
	90,322	(24,374)	(50)	65,898
Loss carryforwards	11,423	(11,423)	-	-
	<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	23,247	21,734	-	44,981
	<u>\$ 33,537</u>	<u>\$ 19,676</u>	<u>\$ -</u>	<u>\$ 53,213</u>

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

As of December 31, 2021 and 2020, the taxable temporary differences associated with investment in subsidiaries for which no deferred tax liabilities have been recognized were \$1,770,810 thousand and \$2,480,872 thousand, respectively.

- f. Income tax assessments

The Company's tax returns until 2019 have been assessed by the tax authorities.

25. EARNINGS PER SHARE

Unit: NT\$ Per Share
For the Year Ended December 31

	<u>2021</u>	<u>2020</u>
Basic earnings per share	<u>\$ 30.23</u>	<u>\$ 3.97</u>
Diluted earnings per share	<u>\$ 28.62</u>	<u>\$ 3.73</u>

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

	For the Year Ended December 31	
	<u>2021</u>	<u>2020</u>
Earnings used in the computation of basic earnings per share	<u>\$ 6,112,935</u>	<u>\$ 1,011,992</u>

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

	For the Year Ended December 31	
	<u>2021</u>	<u>2020</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	202,208	254,897
Effect of potentially dilutive ordinary shares:		
Treasury shares transferred to employees	8,157	14,592
Employee stock options (share)	475	569
Restricted stock for employees (share)	785	-
The remuneration to employees	<u>1,984</u>	<u>1,322</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>213,609</u>	<u>271,380</u>

26. SHARE-BASED PAYMENT ARRANGEMENTS

The company did not have stock option plan issued for employees and share buyback program for the years ended December 31, 2021 and 2020.

a. Employee stock option plan

Information about vested options of 2021 and 2020 are as following:

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	Range of exercise price (NT\$)	Weighted-average contractual life remaining (years)	Range of exercise price (NT\$)	Weighted-average contractual life remaining (years)
Employee Stock Option Plan				
2006	\$5.37~36.17	0.11~1.27	\$5.46~36.8	1.1~2.27
2015	15.6	3.67	15.9	4.67

Information about outstanding options in 2021 and 2020 is as following:

2021

Employee stock Option Plan	<u>Beginning Balance</u>		<u>Options exercised</u>		<u>Options expired</u>		<u>Ending Balance</u>	
	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	398,199	\$ 26.65	(199,800)	\$ 33.04	-	\$ -	198,399	\$ 19.86
2015	397,500	15.90	(176,500)	15.78	(12,000)	15.9	209,000	15.60

2020

Employee stock Option Plan	Beginning Balance		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\$)
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

As of December 31, 2021, 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, 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.

b. Treasury shares transferred to employees

Information about treasury shares transferred to employees 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)	Retired Shares (In thousand share)	Transferred price (in dollar)
The 4th Shares Buy Back Program	2018/7/26	8,000	7,952	(46)	(2)	\$ 33.69 (Adjusted)
The 5th Shares Buy Back Program	2018/8/23	7,689	7,206	(473)	(10)	32.93 (Adjusted)

Information about Shares Buy Back Programs transferred is as follows:

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	\$ 3.30	2019/05/07	4,651	\$ -
2021/04/07	104	181.40	2019/11/08	60	-
			2020/03/20	1,399	3.70
			2020/11/06	434	1.90
			2021/04/07	572	181.20
			2021/07/29	90	242.20
Total	<u>7,952</u>		Total	<u>7,206</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.

c. Restricted stock for employees

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

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

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

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

The constraints of restricted stock are as follows:

- e. Employees are restricted to dispose, pledged, transferred, and give to others the granted shares until they are vested.
- f. The rights of restricted stock are the same as ordinary share including attendance, propose, speak, voting right and so on.
- g. Stock dividends and cash dividends yielding from restricted stock will be distributed to employees in the current year, and will not be restricted.
- h. National employee should transfer the granted shares to trustee appointed by the Company immediately. Before they are vested, the restricted should be kept in trustee. Non-national employee' granted share should be kept by bank appointed by the Company.

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

Compensation cost of aforementioned share-based payments for the years ended December 31, 2021 and 2020 was as follows:

	For the Year Ended December 31	
	2021	2020
Shares buyback programs	\$ 27,008	\$ 12,433
Restricted stock for employees	<u>204,457</u>	<u>-</u>
	<u>\$ 231,465</u>	<u>\$ 12,433</u>
Adjustment account:		
Capital surplus - employee stock options	\$ 27,008	\$ 12,433
Other equity - unearned employee compensation	<u>204,457</u>	<u>-</u>
	<u>\$ 231,465</u>	<u>\$ 12,433</u>

27. OPERATING LEASE ARRANGEMENTS

The Company as a lessee

The Company has lease contracts for office, plant and some office equipment, which would be expired before December 2022. 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 committed payments for the short-term leases were \$12,471 thousand and \$9,140 thousand as of December 31, 2021 and 2020.

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

	For the Year Ended December 31	
	2021	2020
Lease payment	<u>\$ 23,011</u>	<u>\$ 22,726</u>

28. 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.

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, 2021

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial asset at FVTPL</u>				
Listed preferred shares	\$ 271,019	\$ -	\$ -	\$ 271,019
Private funds	-	-	132,470	132,470
Total	<u>\$ 271,019</u>	<u>\$ -</u>	<u>\$ 132,470</u>	<u>\$ 403,489</u>

December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Financial asset at FVTPL</u>				
Listed preferred shares	\$ 72,186	\$ -	\$ -	\$ 72,186
Private funds	-	-	24,953	24,953
Total	<u>\$ 72,186</u>	<u>\$ -</u>	<u>\$ 24,953</u>	<u>\$ 97,139</u>

There were no transfers between Level 1 and Level 2 in 2021 and 2020.

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

	<u>For the Year Ended in December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Financial assets at FVTPL</u>		
Balance, beginning of year	\$ 24,953	\$ 16,918
Purchases	100,554	10,000
Disposals	(181)	-
Recognized in profit or loss (other income or loss)	<u>7,144</u>	<u>(1,965)</u>
Balance, end of year	<u>\$ 132,470</u>	<u>\$ 24,953</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.

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2021</u>	<u>2020</u>
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Mandatorily at FVTPL	\$ 403,489	\$ 97,139
Amortized cost (Note 1)	13,898,268	4,217,596
<u>Financial liabilities</u>		
Amortized cost (Note 2)	8,415,934	3,238,131

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

d. Financial risk management objectives and policies

The Company's major financial instruments include cash and cash equivalents, accounts receivable, other financial assets, financial assets at FVTPL, accounts 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).

i) Foreign currency risk

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 33.

Sensitivity analysis

The Company was mainly exposed to the U.S. dollar.

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

	USD Impact	
	For the Year Ended December 31	
	2021	2020
Profit or loss/ equity	<u>\$308,819</u> (i)	<u>\$ 67,415</u> (i)

(i) This was mainly attributable to the outstanding balances of USD deposits, accounts receivables, accounts payables, other payables, other current assets, refundable deposits, and other current liability.

ii) Interest rate risk

The Company was exposed to interest risk primarily related to its investments in 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. Therefore, changes in interest rates would not affect future cash flows.

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

	December 31	
	2021	2020
Fair value interest rate risk		
Financial assets	<u>\$ 5,245,870</u>	<u>\$ 170,880</u>
Financial liabilities	<u>\$ 786,840</u>	<u>\$ 480,000</u>
Cash flow interest rate risk		
Financial assets	<u>\$ 2,910,927</u>	<u>\$ 2,454,853</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 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 years ended December 31, 2021 and 2020 would decrease/increase by 7,277 thousand and \$6,137 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 accounts receivables. Ongoing credit evaluation is performed on the financial condition of accounts receivables.

As of December 31, 2021, the Company's five largest customers took 67% of total accounts 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 adequate cash and cash equivalents to fund its operations and mitigate the impacts of fluctuations in cash flows. In addition, bank loans are a significant resource of liquidity for the Company.

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

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

December 31, 2021

	<u>On Demand or Less than 1 Year</u>	<u>1-5 Years</u>	<u>More than 5 Years</u>
Non-interest bearing	\$ 3,240,590	\$ 4,388,290	\$ -
Fixed interest rate liabilities	<u>214</u>	<u>155,832</u>	<u>631,008</u>
	<u>\$ 3,240,804</u>	<u>\$ 4,544,122</u>	<u>\$ 631,008</u>

December 31, 2020

	<u>On Demand or Less than 1 Year</u>	<u>1-5 Years</u>	<u>More than 5 Years</u>
Non-interest bearing	\$ 2,275,649	\$ 482,276	\$ -
Fixed interest rate liabilities	<u>480,206</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,755,855</u>	<u>\$ 482,276</u>	<u>\$ -</u>

30. 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
FocalTech Electronics (Shenzhen) Co., Ltd.	Subsidiary

b. Sales of goods

<u>Line Item</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2021</u>	<u>2020</u>
Sales	Subsidiaries	\$ <u> -</u>	\$ <u> 43,670</u>

The Company provided research and development and manufacturing management services and charged for revenues according to contracts.

c. Purchases of goods

<u>Line Item</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2021</u>	<u>2020</u>
Purchase	Subsidiaries	\$ <u> 38,340</u>	\$ <u> 46,550</u>

Purchases were made by the Company at market prices and conditions similar with the non-related parties.

d. Payables to related parties

<u>Line Item</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2021</u>	<u>2020</u>
Accounts payables	Subsidiaries		
	FocalTech Electronics, Ltd.	\$ 515,551	\$ 518,851
	Others	16,207	20,359
		<u>\$ 531,758</u>	<u>\$ 539,210</u>

The outstanding accounts payables to related parties are unpledged.

e. Prepayments (accounted for other current assets)

<u>Line Item</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2021</u>	<u>2020</u>
Prepayments	Subsidiaries		
	FocalTech Smart Sensors, Ltd.	\$ <u> -</u>	\$ <u> 85,440</u>

f. Advances (accounted for other current liabilities)

<u>Line Item</u>	<u>Related Party Category/Name</u>	<u>For the Year Ended December 31</u>	
		<u>2021</u>	<u>2020</u>
Advances	Subsidiaries		
	FocalTech Systems, Ltd.	\$ <u> 198,797</u>	\$ <u> 247,263</u>

The Company accounted for service revenue from related parties in advance.

g. Compensation of key management personnel

	For the Year Ended December 31	
	2021	2020
Long-term employee benefits	\$ 3,145	\$ 15,450
Short-term employee benefits	81,536	40,107
Post-employment benefits	488	459
Share-based payments	<u>33,657</u>	<u>2,689</u>
	<u>\$ 118,826</u>	<u>\$ 58,705</u>

31. PLEDGED ASSETS

The following assets were provided as collateral for bank loans:

	For the Year Ended December 31	
	2021	2020
Properties, plants and equipment –Construction in progress	<u>\$ 1,071,400</u>	<u>\$ _____</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACTUAL COMMITMENTS

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

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, 2021

	Foreign Currencies (thousand)	Exchange Rate	NT\$ (thousand)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 491,587	27.68 (USD:NTD)	\$ 13,607,140
<u>Non-Monetary items</u>			
USD	146,331	27.68 (USD:NTD)	4,050,456
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	268,452	27.68 (USD:NTD)	7,430,763

December 31, 2020

	<u>Foreign Currencies (thousand)</u>	<u>Exchange Rate</u>	<u>NT\$ (thousand)</u>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 144,584	28.48 (USD:NTD)	\$ 4,117,740
<u>Non-Monetary items</u>			
USD	159,307	28.48 (USD:NTD)	4,573,073
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	97,242	28.48 (USD:NTD)	2,769,444

34. SEPARATELY DISCLOSED ITEMS

- a. Information about significant transactions and investees:
- 1) Financing provided to others: See Table 1 attached;
 - 2) Endorsements/guarantees provided: See Table 2 attached;
 - 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): See Table 3 attached;
 - 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: See Table 4 attached;
 - 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)
- b. Names, locations, and related information of investees over which the Company exercises significant influence (excluding information on investment in mainland China): See Table 5 attached;
- c. Information on investments in mainland China
- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: See Table 6 attached.
 - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports (None)
- d. 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 (None)

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

FocalTech Systems Co., Ltd.

**FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2021**

(Amounts in Thousands; Currency denomination in NTD or in foreign currencies)

No (Note 1)	Financing Company	Counterparty	Financial Statement Account	Related Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Amount Actually Drawn (Note 4)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)	Note
													Item	Value			
1	FocalTech Systems, Ltd.	FocalTech Systems Co., Ltd.	Other receivables	Yes	\$ 1,660,800 (USD 60,000)	\$ 1,660,800 (USD 60,000)	\$ -	-	The need for short- term financing	\$ -	Operating capital	\$ -	-	\$ -	\$ 2,382,050	\$ 2,382,050	Note 3

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

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

Note 2: The lending limits:

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

Note 3: The balances have been eliminated on consolidation.

Note 4: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

FocalTech Systems Co., Ltd.

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2021

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

No. (Note1)	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Period (Note 5)	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements(%)	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	FocalTech Systems Co., Ltd.	FocalTech Systems, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	\$ 6,812,831	\$ 1,245,600 (USD 45,000)	\$ 1,245,600 (USD 45,000)	\$ -	\$ -	9.14%	\$ 6,812,831	Y	N	N	(Note 3)
0	FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	1,262,326 (USD 45,604)	1,262,326 (USD 45,604)	-	-	9.26%	6,812,831	Y	N	N	(Note 3)
0	FocalTech Systems Co., Ltd.	Hefei PineTech Electronics Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	1,577,760 (USD 57,000)	1,577,760 (USD 57,000)	14,815	-	11.58%	6,812,831	Y	N	Y	(Note 3 and 6)
0	FocalTech Systems Co., Ltd.	FocalTech Electronics (Shenzhen) Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	1,909,920 (USD 69,000)	1,909,920 (USD 69,000)	85,841	-	14.02%	6,812,831	Y	N	Y	(Note 3 and 6)
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors Co., Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	196,800	96,800	-	-	0.71%	6,812,831	Y	N	N	(Note 4 and 5)
0	FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/ guaranteed company.	6,812,831	96,880 (USD 3,500)	96,880 (USD 3,500)	-	-	0.71%	6,812,831	Y	N	N	(Note 4)

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

1) 0 for parent company.

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

Note 2: Limits on Endorsement/ Guarantee Amount

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

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

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

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

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

Note 3: FocalTech Systems Co., Ltd. provided USD 45,000 thousand of endorsements/guarantees for FocalTech Electronics Ltd., FocalTech Systems, Ltd., Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$0, NT\$0, NT\$0, and NT\$ 31,607 thousand respectively.

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

Note 5: FocalTech Systems Co., Ltd. provided NT\$ 100,000 thousand of endorsements/guarantees for FocalTech Smart Sensors Co., Ltd..

Note 6: FocalTech Systems Co., Ltd. provided USD 5,000 thousand of endorsements/guarantees for Hefei PineTech Electronics Co., Ltd. and FocalTech Electronics (Shenzhen) Co., Ltd. for the purchases, the amount actually drawn during the period is NT\$ 0.

Note 7: Using the exchange rate of 1 USD: 27.68 NTD and 1 RMB: 4.3415 NTD as of December 31, 2021.

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FocalTech Systems Co., Ltd.

MARKETABLE SECURITIES HELD

DECEMBER 31, 2021

(Amount in thousand; Currency denomination in NTD)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2021				Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value	
FocalTech Systems Co., Ltd.	<u>Stock</u>							
	Common stock of Wisdom Marine Lines Co., Ltd. (CAYMAN)	-	Financial assets at fair value through profit or loss - current	1,461,000	NT\$ 119,218	0.20	NT\$ 119,218	-
	Series B Preferred Stock of Fubon Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss - non current	170,000	NT\$ 10,727	0.03	NT\$ 10,727	-
	Series A Preferred Stock of WT Microelectronics Co., Ltd.	-	"	2,882,000	NT\$ 141,074	2.13	NT\$ 141,074	-
	<u>Privately Offered Fund</u>							
	CDIB Capital Healthcare Ventures II Limited Partnership	-	Financial assets at fair value through profit or loss - non current	-	NT\$ 12,581	0.96	NT\$ 12,581	-
	CDIB Capital Growth Partners L.P.	-	"	-	NT\$ 32,820	0.66	NT\$ 32,820	-
CDIB-Innolux Limited Partnership	-	"	-	NT\$ 12,211	4.37	NT\$ 12,211	-	
Cathay Private Equity Smart Tech Limited Partnership	-	"	-	NT\$ 74,858	35.71	NT\$ 74,858	-	

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

FocalTech Systems Co., Ltd.

ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2021

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

Company Name	Types of Property	Date of the Event	Transaction Amount	Status of payment	Counterparty	Relationship	Information on prior transaction if the counterparty is a related party				Basis or reference used in setting the price	Purpose of acquisition and utilization	Other Terms
							Owner	Relationship with the company	Date of transfer	Amount			
FocalTech Systems Co., Ltd.	Commercial building	May 28, 2021	\$1,071,400	Based on the terms in the contract	MADISON ASSET MANAGEMENT CORP.	-	Not applicable	Not applicable	Not applicable	Not applicable	Market price and real estate assessment report	Office building for own-use	None

Note 1: Fill in the column the “Basis or reference used in setting the price” if an appraisal report issued by a professional appraiser shall be obtained.

Note 2: Pain-in capital means the shares that the Company issued and fully paid. In the case of the company whose shares have no par value or a par value other than NT\$10, the term “20% of the company’s paid-in capital” used herein shall be calculated based on the equity attributable to shareholders of the parent in the balance sheet.

Note 3: “Date of the Event” used herein means, the contract date, the payment date, the transaction date, the title transfer date, the date of relevant board resolutions or other dates in which the transaction parties and the transaction amount can be ascertained (whichever is earlier).

FocalTech Systems Co., Ltd.

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA) (Note 1)
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2021			Net Income (Losses) of the Investee (Note 4)	Share of Profits/Losses of Investee (Note 4)	Note
				December 31,2021 (Note 2)	December 31,2020 (Note 3)	Shares	Percentage of Ownership	Carrying Value (Note 2)			
FocalTech Systems Co., Ltd.	FocalTech Corporation, Ltd.	Cayman Islands	Investment activity	NT\$ 7,059,264	NT\$ 7,059,264	5,491,200	100%	NT\$ 2,500,591 (USD 90,339)	(NT\$ 660,388) (USD 23,578)	(NT\$ 660,388) (USD 23,578)	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Electronics, Ltd.	Cayman Islands	Investment activity	NT\$ 2,768 (USD 100)	NT\$ 2,848 (USD 100)	2	100%	NT\$ 1,543,791 (USD 55,773)	NT\$ 15,502 USD 553	NT\$ 15,502 USD 553	Subsidiary
FocalTech Systems Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 85,350	NT\$ -	3,000,000	9.14%	NT\$ 6,074 (USD 219)	(NT\$ 47,944) (USD 1,712)	(NT\$ 4,382) (USD 156)	Subsidiary
FocalTech Systems Co., Ltd.	Vitrio Technology Corporation	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ 4,970	NT\$ 4,970	142,000	50.00%	NT\$ -	(NT\$ 3,341)	NT\$ -	Joint Venture
FocalTech Electronics Co., Ltd.	FocalTech Smart Sensors, Ltd.	Cayman Islands	Investment activity	NT\$ 238,821	NT\$ 238,821	18,813,050	57.31%	NT\$ 38,091 (USD 1,376)	(NT\$ 47,944) (USD 1,712)	(NT\$ 27,477) (USD 981)	Subsidiary
FocalTech Smart Sensors, Ltd.	FocalTech Smart Sensors Co., Ltd.	Taiwan	Research, development, manufacturing and sale of integrated circuits	NT\$ 11,990	NT\$ 11,990	17,417,000	100%	(NT\$ 289,349)	(NT\$ 87,310)	(NT\$ 87,310)	Subsidiary
FocalTech Corporation, Ltd.	FocalTech Systems, Inc.	U.S.A	Investment activity	NT\$ 2,831,466 (USD 102,293)	NT\$ 2,913,300 (USD 102,293)	100	100%	NT\$ 2,312,135 (USD 83,531)	(NT\$ 653,934) (USD 23,347)	(NT\$ 653,934) (USD 23,347)	Subsidiary
FocalTech Systems, Inc.	FocalTech Systems, Ltd.	Cayman Islands	Investment activity	NT\$ 646,330 (USD 23,350)	NT\$ 665,010 (USD 23,350)	2	100%	NT\$ 2,382,050 (USD 86,057)	(NT\$ 654,693) (USD 23,374)	(NT\$ 654,693) (USD 23,374)	Subsidiary
FocalTech Systems, Ltd.	FocalTech Electronics Co., Ltd.	Taiwan	Import and export of integrated circuits	NT\$ 20,000	NT\$ 20,000	2,000,000	100%	NT\$ 110,304 (USD 3,985)	(NT\$ 29,260) (USD 1,045)	(NT\$ 29,260) (USD 1,045)	Subsidiary

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

Note 2: Using the exchange rate of 1 USD: 27.68 NTD as of December 31, 2021.

Note 3: Using the exchange rate of 1 USD: 28.48 NTD as of December 31, 2020.

Note 4: Using the average exchange rate of 1 USD: 28.009 NTD for the year ended December 31, 2021.

FocalTech Systems Co., Ltd.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2021

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

Investee company	Main businesses and products	Total amount of paid-in capital (Note 1)	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2021 (Note 1)	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2021 (Note 1)	Net income (loss) of investee company (Note 2)	Percentage of ownership	Investment income (loss) recognized (Note 2)	Carrying amount as of December 31, 2021 (Note 1)	Accumulated inward remittance of earnings as of December 31, 2021	Note
					Outflow	Inflow							
FocalTech Electronics (Shanghai) Co., Ltd.	Sales support and post-sales service for affiliates' IC products	NT\$ 55,360 (USD 2,000)	(Note 3 and 4)	NT\$ 27,680 (USD 1,000)	\$ -	\$ -	NT\$ 27,680 (USD 1,000)	(NT\$ 6,034) (USD 215)	100%	(NT\$ 6,034) (USD 215)	NT\$ 29,525 (USD 1,067)	\$-	-
FocalTech Electronics (Shenzhen) Co., Ltd.	Research, development, manufacturing and sale of integrated circuits	NT\$ 63,664 (USD 2,300)	(Note 3)	NT\$ 27,680 (USD 1,000)	-	-	NT\$ 27,680 (USD 1,000)	NT\$ 199,146 (USD 7,110)	100%	NT\$ 199,146 (USD 7,110)	NT\$ 257,102 (USD 9,288)	-	-
FocalTech Systems (Shenzhen) Co., Ltd.	Design and research of integrated circuits	NT\$ 1,024,164 (USD 37,000)	(Note 4)	-	-	-	-	(NT\$ 236,158) (USD 8,432)	100%	(NT\$ 236,158) (USD 8,432)	NT\$ 1,199,837 (USD 43,347)	-	-
Hefei PineTech Electronics Co., Ltd.	Research, development and sale of integrated circuits	NT\$ 130,245 (RMB 30,000)	(Note 4)	-	-	-	-	NT\$ 13,371 (USD 477)	100%	NT\$ 13,371 (USD 477)	NT\$ 229,356 (USD 8,286)	-	-

Accumulated Investment in Mainland China as of December 31, 2021	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$55,360 (USD2,000)	\$1,673,730 (USD60,467)	\$8,175,396

Note 1: Using the exchange rate of 1 USD: 27.68 NTD and 1 RMB :4.3415 NTD as of December 31, 2021.

Note 2: Using the average exchange rate of 1 USD: 28.009 NTD and 1 RMB :4.3417 NTD for the year ended December 31, 2021.

Note 3: Indirect investment in Mainland China through a holding company established in other countries.

Note 4: The investment is through the foreign subsidiaries, has not been remitted from Taiwan.

FocalTech Systems Co., Ltd.

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FocalTech Systems Co., Ltd.**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2021****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Description	Amount
Petty cash and cash on hand	Including EUR 3 thousand @31.32, HKD 23 thousand @3.549, RMB 47 thousand @4.3415, JPY 530 thousand @0.2405 ,USD 3 thousand @27.68 and NTD 40 thousand	\$ <u>625</u>
Cash in banks		
Checking accounts and current accounts		253,154
Foreign currency current accounts	Including USD 96,120 thousand @27.68 ,JPY 1,001 thousand @0.2405, RMB 49 thousand @4.3415 and EUR 1 thousand @31.32	<u>2,661,100</u>
		<u>2,914,254</u>
Cash equivalents		
Time Deposits	Which would be expired before March 30, 2022, interest rates at 0.20%-0.25%, including USA 78,000 thousand @27.68	<u>2,159,040</u>
		<u>\$ 5,073,919</u>

FocalTech Systems Co., Ltd.

STATEMENT OF OTHER FINANCIAL ASSETS

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

<u>Item</u>	<u>Description</u>	<u>Rate</u>	<u>Amount</u>
Time deposits with original maturities more than three months	Including USD 111,000 thousand ; Expiration date 2022.05.16~2022.06.30	0.35%-0.48%	<u>\$ 3,086,830</u>

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

FocalTech Systems Co., Ltd.

STATEMENT OF ACCOUNTS RECEIVABLES, NET

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Item	Amount
Client A	\$ 661,219
Client B	446,304
Client C	391,985
Client D	268,586
Client E	176,691
Client F	152,733
Client G	150,934
Others (Note)	<u>662,215</u>
	2,910,667
Less: Allowance for doubtful accounts	<u>-</u>
	<u>\$ 2,910,667</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, 2021****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Book value	Net Realizable Value
Finished goods	\$ 861,983	\$1,731,732
Work in process	1,301,879	2,088,344
Raw materials	490,297	787,560
	<u>\$2,654,159</u>	<u>\$4,607,636</u>

FocalTech Systems Co., Ltd.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (In Thousands of New Taiwan Dollars)

Investees	Balance, January 1, 2021			Additions in Investment		Share of Profit (Loss) of the Investee	Other Comprehensive Income	Other Adjustment	Balance, December 31, 2021			Collateral	Note
	Shares (In thousand)	Percentage of Ownership(%)	Amount	Shares (In thousand)	Amount				Shares (In thousand)	Percentage of Ownership(%)	Amount		
Unlisted companies													
FocalTech Corporation, Ltd.	5,491	100	\$2,974,195	-	\$ -	(\$660,388)	(\$ 52,854)	\$ 239,638	5,491	100	\$2,500,591	Nil	Note1
FocalTech Electronics, Ltd	2 shares	100	1,562,878	-	-	15,502	(34,589)	-	2 shares	100	1,543,791	Nil	-
FocalTech Smart Sensors, Ltd.	-	-	-	3,000	85,350	(4,382)	(1,720)	(73,174)	3,000	9.14	6,074	Nil	Note2
Vitrio Technology Corporation	142	50	-	-	-	-	-	-	142	50	-	Nil	-
			<u>\$4,537,073</u>		<u>\$ 85,350</u>	<u>(\$ 649,268)</u>	<u>(\$ 89,163)</u>	<u>\$ 166,464</u>			<u>\$4,050,456</u>		

Note 1 : Other adjustment is compensation cost of employee share options, NT\$166,721 thousand and the non-subscription of the new shares of the subsidiary, the difference recorded as an adjustment to increase the investments, NT\$72,917 thousand.

Note 2 : Other adjustment is due to the non-subscription of the new shares of the subsidiary, the difference recorded as an adjustment to decrease the investments, NT\$73,174 thousand.

FocalTech Systems Co., Ltd.

STATEMENT OF LONG-TERM LOANS

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Collateral
<u>Secured bank loans</u>				
Mega Bank	\$ 500,000	2021/09/24~ 2031/09/24	1.00%	Land and buildings pledged as collateral
Chang Hwa Bank	<u>286,840</u>	2021/09/24~ 2036/09/24	1.00%	Land and buildings pledged as collateral
Total	<u>\$ 786,840</u>			

FocalTech Systems Co., Ltd.

STATEMENT OF ACCOUNTS PAYABLES

DECEMBER 31, 2021

(In Thousands of New Taiwan Dollars)

Item	Amount
Accounts payables-related party	
FocalTech Electronics, Ltd.	\$ 515,551
Others(Note)	<u>16,207</u>
	<u>531,758</u>
Accounts payables-others	
Vendor A	\$ 472,284
Vendor B	430,634
Vendor C	390,275
Vendor D	267,573
Vendor E	249,259
Vendor F	183,960
Vendor G	175,356
Others (Note)	<u>123,280</u>
	<u>2,292,621</u>
	<u>\$2,824,379</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, 2021****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Quantity (in thousand units)	Amount
Net sales		
IC for Human-Machine Interface Solutions	266,984	\$ 18,500,418
Less: Sales discounts		103,078
Sales returns		<u>61,555</u>
		<u>\$ 18,335,785</u>

FocalTech Systems Co., Ltd.**STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In Thousands of New Taiwan Dollars)**

Item	Amount
Raw materials, beginning of year	\$ 92,013
Raw materials purchased	7,746,074
Transferred to expenses	(2,599)
Raw materials balance, end of year	(490,297)
Raw materials used	7,345,191
Manufacturing expenses	2,540,292
Manufacturing cost	9,885,483
Work in process, beginning of year	812,019
Transferred to expenses and others	(59,682)
Work in process, end of year	(1,301,879)
Cost of finished goods	9,336,031
Finished goods, beginning of year	311,159
Finished goods purchased	51,170
Transferred to expenses and others	(4,438)
Finished goods, end of year	(861,983)
Operating costs	<u>\$ 8,831,939</u>

FocalTech Systems Co., Ltd.
**STATEMENT OF OPERATING EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (In Thousands of New Taiwan Dollars)**

Item	Selling Expenses	General and Administrative Expenses	Research and Development Expenses
Payroll	\$ 162,632	\$ 157,478	\$ 752,830
Rent expense	-	22,961	50
Freight	15,654	74	-
Insurance fees	4,903	17,120	22,208
Mask expense	-	-	121,977
Test boards	-	-	86,720
Consumables	-	-	75,146
Welfare	-	18,500	-
Professional service fees	(3,491)	22,034	17,217
Management fees of the Science Park Administration	-	28,043	-
Miscellaneous fees	351	26,106	21,034
Others (Note)	<u>19,621</u>	<u>33,480</u>	<u>150,424</u>
	<u>\$ 199,670</u>	<u>\$ 325,796</u>	<u>\$1,247,606</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, 2021 AND 2020
(In Thousands of New Taiwan Dollars)**

	2021			2020		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefits						
Salary and bonus	\$ 209,572	\$ 1,036,199	\$ 1,245,771	\$ 79,898	\$ 688,695	\$ 768,593
Labor and health insurance	7,200	43,715	50,915	7,200	33,656	40,856
Pension	5,538	22,004	27,542	5,170	20,789	25,959
Board compensation	-	36,741	36,741	-	14,230	14,230
Others	2,497	27,756	30,253	2,318	20,308	22,626
	<u>\$ 224,807</u>	<u>\$ 1,166,415</u>	<u>\$ 1,391,222</u>	<u>\$ 94,586</u>	<u>\$ 777,678</u>	<u>\$ 872,264</u>
Depreciation	<u>\$ 8,892</u>	<u>\$ 9,578</u>	<u>\$ 18,470</u>	<u>\$ 722</u>	<u>\$ 9,845</u>	<u>\$ 10,567</u>
Amortization	<u>\$ -</u>	<u>\$ 15,317</u>	<u>\$ 15,317</u>	<u>\$ -</u>	<u>\$ 15,609</u>	<u>\$ 15,609</u>

Note 1: The Company's average employees totaled to 423 and 392 as of December 31, 2021 and 2020, respectively, including 6 and 7 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 benefits for the years ended December 31, 2021 and 2020 was NT\$3,248 thousand and NT\$2,229 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, 2021 and 2020 was NT\$2,987 thousand and NT\$1,996 thousand, respectively. (Total salary and bonus/ "Total employee headcount - Total non-employee director headcount")
- c. The average salary and bonus increased by 50% year over year. ("Average salary and bonus in current year - Average salary and bonus in previous year"/Average salary and bonus in previous year)

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

- d. The Company did not have supervisors for the years ended December 31, 2021 and 2020. 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

