

**SERCOMM CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REVIEW REPORT
MARCH 31, 2024 AND 2023**

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

INDEPENDENT AUDITORS' REVIEW REPORT

PWCR24000035

To the Board of Directors and Shareholders of Sercomm Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Sercomm Corporation and subsidiaries (the "Group") as at March 31, 2024 and 2023, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three months then ended, and notes to the consolidated financial statements, including a summary of material accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" that came into effect as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

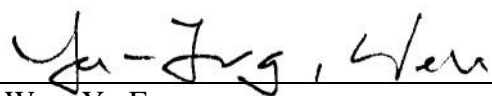
Except as explained in the following paragraph, we conducted our reviews in accordance with the Standard on Review Engagements 2410 "Review of Financial Information Performed by the Independent Auditor of the Entity" of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

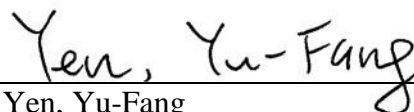
As explained in Notes 4(3) and 6(8), the financial statements of insignificant consolidated subsidiaries and investments accounted for using equity method were not reviewed by independent auditors. Total assets of these subsidiaries (including investments accounted for using equity method) amounted to NT\$7,787,591 thousand and NT\$3,506,341 thousand, constituting 16.0% and 8.4% of the consolidated total assets as at March 31, 2024 and 2023, respectively, total liabilities amounted to NT\$1,030,933 thousand and NT\$1,248,609 thousand, constituting 3.0% and 3.9% of the consolidated total liabilities as at March 31, 2024 and 2023, respectively, and total comprehensive income amounted to (NT\$65,392) thousand and NT\$50,176 thousand, constituting (7.1%) and 9.7% of the consolidated total comprehensive income for the three months then ended, respectively.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and investments accounted for using equity method been reviewed by independent auditors, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2024 and 2023, and of its consolidated financial performance and its consolidated cash flows for the three months then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" that came into effect as endorsed by the Financial Supervisory Commission.



Wen, Ya-Fang



Yen, Yu-Fang

For and on behalf of PricewaterhouseCoopers, Taiwan

May 7, 2024

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and independent auditors' report are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2024, DECEMBER 31, 2023 AND MARCH 31, 2023
(Expressed in thousands of New Taiwan dollars)

| | Assets | Notes | March 31, 2024 | | December 31, 2023 | | March 31, 2023 | |
|------|--|------------|----------------------|------------|----------------------|------------|----------------------|------------|
| | | | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| | Current assets | | | | | | | |
| 1100 | Cash and cash equivalents | 6(1) | \$ 10,577,004 | 22 | \$ 8,830,912 | 19 | \$ 7,906,935 | 19 |
| 1110 | Financial assets mandatorily measured at fair value through profit or loss - current | 6(2) | 1,808,187 | 4 | 1,190,590 | 2 | 2,181 | - |
| 1120 | Financial assets at fair value through other comprehensive income - current | 6(3) | - | - | - | - | 158,125 | - |
| 1136 | Financial assets at amortised cost - current | 8 | 69,135 | - | 60,855 | - | 85,323 | - |
| 1139 | Financial assets for hedging - current | 6(4) | 21,299 | - | 998 | - | 25 | - |
| 1150 | Notes receivable, net | 6(5) | 69,285 | - | 78,138 | - | 174,793 | 1 |
| 1170 | Accounts receivable, net | 6(5) | 13,000,650 | 27 | 11,502,602 | 24 | 8,106,526 | 19 |
| 1200 | Other receivables | 6(6) | 527,746 | 1 | 445,590 | 1 | 645,872 | 2 |
| 1220 | Current income tax assets | | 6,955 | - | 1,681 | - | 63,677 | - |
| 130X | Inventories | 6(7) | 14,420,872 | 29 | 17,533,297 | 37 | 16,808,331 | 40 |
| 1410 | Prepayments | | 649,319 | 1 | 588,137 | 1 | 699,535 | 2 |
| 1470 | Other current assets | | 17,174 | - | 26,986 | - | 26,125 | - |
| 11XX | Current assets | | <u>41,167,626</u> | <u>84</u> | <u>40,259,786</u> | <u>84</u> | <u>34,677,448</u> | <u>83</u> |
| | Non-current assets | | | | | | | |
| 1510 | Financial assets at fair value through profit or loss - non-current | 6(2) | - | - | 4,616 | - | - | - |
| 1517 | Financial assets at fair value through other comprehensive income - non-current | 6(3) | 25,094 | - | 24,720 | - | 24,092 | - |
| 1535 | Financial assets at amortised cost - non-current | 8 and 9 | 118,276 | - | 117,822 | - | 98,319 | - |
| 1550 | Investments accounted for using equity method | 6(8) | 13,292 | - | 7,305 | - | 9,061 | - |
| 1600 | Property, plant and equipment | 6(9) and 8 | 5,537,554 | 12 | 5,367,828 | 11 | 5,072,839 | 12 |
| 1755 | Right-of-use assets | 6(10) | 348,561 | 1 | 377,769 | 1 | 447,329 | 1 |
| 1780 | Intangible assets | 6(11) | 366,648 | 1 | 378,471 | 1 | 498,813 | 1 |
| 1840 | Deferred income tax assets | | 895,170 | 2 | 897,142 | 2 | 559,663 | 1 |
| 1915 | Prepayments for business facilities | 6(30) | 139,540 | - | 149,093 | - | 155,113 | 1 |
| 1920 | Guarantee deposits paid | 8 and 9 | 172,823 | - | 163,010 | 1 | 176,705 | 1 |
| 1990 | Other non-current assets, others | | 17,642 | - | 16,967 | - | 23,576 | - |
| 15XX | Non-current assets | | <u>7,634,600</u> | <u>16</u> | <u>7,504,743</u> | <u>16</u> | <u>7,065,510</u> | <u>17</u> |
| 1XXX | Total assets | | <u>\$ 48,802,226</u> | <u>100</u> | <u>\$ 47,764,529</u> | <u>100</u> | <u>\$ 41,742,958</u> | <u>100</u> |

(Continued)

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2024, DECEMBER 31, 2023 AND MARCH 31, 2023
(Expressed in thousands of New Taiwan dollars)

| | Liabilities and Equity | Notes | March 31, 2024 | | December 31, 2023 | | March 31, 2023 | |
|------|--|-------|----------------------|------------|----------------------|------------|----------------------|------------|
| | | | AMOUNT | % | AMOUNT | % | AMOUNT | % |
| | Current liabilities | | | | | | | |
| 2100 | Short-term borrowings | 6(12) | \$ 1,251,294 | 2 | \$ 429,925 | 1 | \$ 245,830 | 1 |
| 2120 | Financial liabilities at fair value through profit or loss - current | 6(2) | 40,119 | - | 1,097 | - | 6,634 | - |
| 2126 | Financial liabilities for hedging - current | 6(4) | 512 | - | 32,490 | - | 78,148 | - |
| 2130 | Contract liabilities - current | 6(22) | 949,782 | 2 | 751,271 | 2 | 494,885 | 1 |
| 2150 | Notes payable | | 669,172 | 1 | 636,314 | 1 | 1,013,607 | 3 |
| 2170 | Accounts payable | | 15,393,701 | 31 | 16,372,388 | 34 | 16,596,731 | 40 |
| 2200 | Other payables | | 5,967,202 | 12 | 4,843,532 | 10 | 4,619,304 | 11 |
| 2230 | Current income tax liabilities | | 862,520 | 2 | 748,161 | 2 | 434,064 | 1 |
| 2250 | Provisions for liabilities - current | 6(17) | 782,954 | 2 | 684,969 | 1 | 562,237 | 1 |
| 2280 | Current lease liabilities | | 61,623 | - | 65,121 | - | 75,595 | - |
| 2320 | Long-term liabilities, current portion | 6(13) | 2,300,000 | 5 | 2,300,000 | 5 | - | - |
| 2365 | Current refund liabilities | 6(22) | 396,938 | 1 | 369,661 | 1 | 386,528 | 1 |
| 2399 | Other current liabilities, others | 9 | 1,248,263 | 3 | 1,102,439 | 2 | 129,670 | - |
| 21XX | Current liabilities | | <u>29,924,080</u> | <u>61</u> | <u>28,337,368</u> | <u>59</u> | <u>24,643,233</u> | <u>59</u> |
| | Non-current liabilities | | | | | | | |
| 2500 | Financial liabilities at fair value through profit or loss - non-current | 6(2) | 13,200 | - | 17,400 | - | 9,600 | - |
| 2511 | Financial liabilities for hedging- non-current | 6(4) | - | - | 3,757 | - | 6,724 | - |
| 2530 | Bonds payable | 6(13) | 4,161,644 | 9 | 5,669,790 | 12 | 6,533,771 | 16 |
| 2540 | Long-term borrowings | 6(14) | - | - | - | - | 663,000 | 2 |
| 2570 | Deferred income tax liabilities | | 323,449 | 1 | 305,179 | 1 | 297,237 | 1 |
| 2580 | Non-current lease liabilities | | 124,171 | - | 142,533 | - | 171,533 | - |
| 2640 | Net defined benefit liability- non-current | | 42,220 | - | 43,452 | - | 45,556 | - |
| 2645 | Guarantee deposits received | | 23,404 | - | 28,896 | - | 37,433 | - |
| 25XX | Non-current liabilities | | <u>4,688,088</u> | <u>10</u> | <u>6,211,007</u> | <u>13</u> | <u>7,764,854</u> | <u>19</u> |
| 2XXX | Total liabilities | | <u>34,612,168</u> | <u>71</u> | <u>34,548,375</u> | <u>72</u> | <u>32,408,087</u> | <u>78</u> |
| | Equity | | | | | | | |
| | Equity attributable to owners of parent | | | | | | | |
| | Share capital | | | | | | | |
| 3110 | Common stock | 6(18) | 2,959,253 | 6 | 2,685,781 | 6 | 2,588,758 | 6 |
| 3140 | Advance receipts for share capital | 6(13) | 53 | - | 105,989 | - | - | - |
| | Capital surplus | 6(19) | | | | | | |
| 3200 | Capital surplus | | 5,966,214 | 12 | 4,608,355 | 9 | 2,731,542 | 6 |
| | Retained earnings | 6(20) | | | | | | |
| 3310 | Legal reserve | | 1,572,874 | 3 | 1,572,874 | 3 | 1,386,585 | 3 |
| 3320 | Special reserve | | 653,337 | 1 | 653,337 | 2 | 669,519 | 2 |
| 3350 | Undistributed retained earnings | | 3,612,648 | 8 | 4,410,572 | 9 | 2,672,689 | 6 |
| | Other equity interest | 6(21) | | | | | | |
| 3400 | Other equity interest | | (443,729) | (1) | (689,879) | (1) | (581,238) | (1) |
| | Treasury stocks | | | | | | | |
| 3500 | Treasury stocks | 6(18) | (119,517) | - | (119,517) | - | (119,517) | - |
| 31XX | Equity attributable to owners of the parent | | <u>14,201,133</u> | <u>29</u> | <u>13,227,512</u> | <u>28</u> | <u>9,348,338</u> | <u>22</u> |
| 36XX | Non-controlling interest | | (11,075) | - | (11,358) | - | (13,467) | - |
| 3XXX | Total equity | | <u>14,190,058</u> | <u>29</u> | <u>13,216,154</u> | <u>28</u> | <u>9,334,871</u> | <u>22</u> |
| | Significant contingent liabilities and unrecognised contract commitments | 9 | | | | | | |
| 3X2X | Total liabilities and equity | | <u>\$ 48,802,226</u> | <u>100</u> | <u>\$ 47,764,529</u> | <u>100</u> | <u>\$ 41,742,958</u> | <u>100</u> |

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(Expressed in thousands of New Taiwan dollars, except earnings per share)

| | | | Three months ended March 31 | | | |
|-------|---|------------|-----------------------------|-------|---------------|-------|
| | | | 2024 | | 2023 | |
| Items | Notes | | AMOUNT | % | AMOUNT | % |
| 4000 | Operating revenue | 6(22) | \$ 16,193,476 | 100 | \$ 15,659,134 | 100 |
| 5000 | Operating costs | 6(7) and 7 | (13,386,072) | (83) | (13,514,752) | (86) |
| 5900 | Gross profit | | 2,807,404 | 17 | 2,144,382 | 14 |
| | Operating expenses | | | | | |
| 6100 | Selling expenses | 7 | (774,964) | (5) | (499,899) | (3) |
| 6200 | General and administrative expenses | 7 | (332,117) | (2) | (288,737) | (2) |
| 6300 | Research and development expenses | 7 | (829,552) | (5) | (691,726) | (5) |
| 6450 | Impairment loss | 12(2) | (14,110) | - | (9,500) | - |
| 6000 | Total operating expenses | | (1,950,743) | (12) | (1,489,862) | (10) |
| 6900 | Operating profit | | 856,661 | 5 | 654,520 | 4 |
| | Non-operating income and expenses | | | | | |
| 7100 | Interest income | | 43,810 | - | 27,430 | - |
| 7010 | Other income | 6(23) | 1,625 | - | 3,790 | - |
| 7020 | Other gains and losses | 6(24) | (5,528) | - | (11,877) | - |
| 7050 | Finance costs | 6(25) | (70,539) | - | (64,279) | - |
| 7060 | Share of profit of associates and joint ventures accounted for using equity method | 6(8) | 5,853 | - | 1,207 | - |
| 7000 | Total non-operating income and expenses | | (24,779) | - | (43,729) | - |
| 7900 | Profit before income tax | | 831,882 | 5 | 610,791 | 4 |
| 7950 | Income tax expense | 6(28) | (157,091) | (1) | (104,447) | (1) |
| 8200 | Profit for the period | | \$ 674,791 | 4 | \$ 506,344 | 3 |
| | Components of other comprehensive income that will not be reclassified to profit or loss | | | | | |
| 8316 | Unrealised gains from investments in equity instruments measured at fair value through other comprehensive income | 6(3)(21) | \$ 374 | - | \$ 17,829 | - |
| 8317 | Gains (losses) on hedging instrument | 6(21) | 24,723 | - | (12,412) | - |
| 8349 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | 6(21) | (4,945) | - | 2,482 | - |
| 8310 | Components of other comprehensive income that will not be reclassified to profit or loss | | 20,152 | - | 7,899 | - |
| | Components of other comprehensive income that will be reclassified to profit or loss | | | | | |
| 8361 | Exchange differences on translation of foreign financial statements | | 200,641 | 2 | 17,325 | - |
| 8368 | Gains (losses) on hedging instruments | 6(21) | 29,800 | - | (19,495) | - |
| 8399 | Income tax related to components of other comprehensive income that will be reclassified to profit or loss | 6(21) | (5,960) | - | 3,900 | - |
| 8360 | Components of other comprehensive income that will be reclassified to profit or loss | | 224,481 | 2 | 1,730 | - |
| 8300 | Other comprehensive income (net) | | \$ 244,633 | 2 | \$ 9,629 | - |
| 8500 | Total comprehensive income for the period | | \$ 919,424 | 6 | \$ 515,973 | 3 |
| | Profit, attributable to | | | | | |
| 8610 | Owners of the parent | | \$ 674,202 | 4 | \$ 505,824 | 3 |
| 8620 | Non-controlling interest | | 589 | - | 520 | - |
| | Total | | \$ 674,791 | 4 | \$ 506,344 | 3 |
| | Comprehensive income attributable to | | | | | |
| 8710 | Owners of the parent | | \$ 919,141 | 6 | \$ 515,666 | 3 |
| 8720 | Non-controlling interest | | 283 | - | 307 | - |
| | Total | | \$ 919,424 | 6 | \$ 515,973 | 3 |
| | Earnings per share | 6(29) | | | | |
| 9750 | Basic earnings per share | | \$ 2.35 | | \$ 1.97 | |
| 9850 | Diluted earnings per share | | \$ 2.27 | | \$ 1.91 | |

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(Expressed in thousands of New Taiwan dollars)

| Equity attributable to owners of the parent | | | | | | | | | | | | | |
|--|---------------|---------------------------------------|--|-------------------|-----------------|---------------------------------------|--|--|---|-----------------|--------------|---------------------------------|--------------|
| | Share capital | | | Retained earnings | | | Other equity interest | | | | | | |
| | | | Capital surplus, additional paid- in capital | | | Undistributed retained earnings | Financial statements translation differences of foreign operations | Unrealised gains (losses) on financial assets at fair value through other comprehensive income | Gains (losses) on hedging instruments | Treasury stocks | Total | Non- controlling interest | Total equity |
| Notes | Common stock | Advance receipts for share capital | | Legal reserve | Special reserve | | | | | | | | |
| <u>Three months ended March 31, 2023</u> | | | | | | | | | | | | | |
| Balance at January 1, 2023 | \$ 2,587,958 | \$ - | \$ 2,706,600 | \$ 1,386,585 | \$ 669,519 | \$ 3,325,056 | (\$ 531,189) | (\$ 17,537) | (\$ 104,611) | (\$ 207,165) | \$ 9,815,216 | (\$ 13,774) | \$ 9,801,442 |
| Profit for the period | - | - | - | - | - | 505,824 | - | - | - | - | 505,824 | 520 | 506,344 |
| Other comprehensive income (loss) for the period | 6(21) | - | - | - | - | - | 17,538 | 17,829 | (25,525) | - | 9,842 | (213) | 9,629 |
| Total comprehensive income (loss) | | - | - | - | - | 505,824 | 17,538 | 17,829 | (25,525) | - | 515,666 | 307 | 515,973 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | |
| Cash dividends | 6(20) | - | - | - | - | (1,158,191) | - | - | - | (1,158,191) | - | (1,158,191) | |
| Compensation cost of employee stock options | 6(16) | - | - | 25,669 | - | - | - | - | - | - | 25,669 | - | 25,669 |
| Exercise of employee share options | 6(16)(19) | 800 | - | 1,440 | - | - | - | - | - | - | 2,240 | - | 2,240 |
| Transfer of treasury shares | 6(18)(19) | - | - | (2,167) | - | - | - | - | - | 87,648 | 85,481 | - | 85,481 |
| Removal of hedging reserve | 6(4) | - | - | - | - | - | - | - | 57,392 | - | 57,392 | - | 57,392 |
| Reclassification of ineffective hedging reserve | 6(4) | - | - | - | - | - | - | - | 4,865 | - | 4,865 | - | 4,865 |
| Balance at March 31, 2023 | \$ 2,588,758 | \$ - | \$ 2,731,542 | \$ 1,386,585 | \$ 669,519 | \$ 2,672,689 | (\$ 513,651) | \$ 292 | (\$ 67,879) | (\$ 119,517) | \$ 9,348,338 | (\$ 13,467) | \$ 9,334,871 |
| <u>Three months ended March 31, 2024</u> | | | | | | | | | | | | | |
| Balance at January 1, 2024 | \$ 2,685,781 | \$ 105,989 | \$ 4,608,355 | \$ 1,572,874 | \$ 653,337 | \$ 4,410,572 | (\$ 629,468) | (\$ 32,210) | (\$ 28,201) | (\$ 119,517) | \$13,227,512 | (\$ 11,358) | \$13,216,154 |
| Profit for the period | - | - | - | - | - | 674,202 | - | - | - | - | 674,202 | 589 | 674,791 |
| Other comprehensive income (loss) for the period | 6(21) | - | - | - | - | - | 200,947 | 374 | 43,618 | - | 244,939 | (306) | 244,633 |
| Total comprehensive income | | - | - | - | - | 674,202 | 200,947 | 374 | 43,618 | - | 919,141 | 283 | 919,424 |
| Appropriation and distribution of retained earnings: | | | | | | | | | | | | | |
| Cash dividends | 6(20) | - | - | - | - | (1,472,126) | - | - | - | (1,472,126) | - | (1,472,126) | |
| Compensation cost of employee stock options | 6(16) | - | - | 10,884 | - | - | - | - | - | - | 10,884 | - | 10,884 |
| Removal of hedging reserve | 6(4) | - | - | - | - | - | - | - | (2,858) | (2,858) | - | (2,858) | |
| Reclassification of ineffective hedging reserve | 6(4) | - | - | - | - | - | - | - | 4,069 | - | 4,069 | - | 4,069 |
| Conversion of convertible bonds | 6(13)(19) | 273,472 | (105,936) | 1,346,975 | - | - | - | - | - | - | 1,514,511 | - | 1,514,511 |
| Balance at March 31, 2024 | \$ 2,959,253 | \$ 53 | \$ 5,966,214 | \$ 1,572,874 | \$ 653,337 | \$ 3,612,648 | (\$ 428,521) | (\$ 31,836) | \$ 16,628 | (\$ 119,517) | \$14,201,133 | (\$ 11,075) | \$14,190,058 |

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

SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(Expressed in thousands of New Taiwan dollars)

| | Notes | Three months ended March 31 2024 | 2023 |
|---|-------|-------------------------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | \$ 831,882 | \$ 610,791 |
| Adjustments | | | |
| Adjustments to reconcile profit (loss) | | | |
| Depreciation expense | 6(26) | 196,708 | 176,400 |
| Amortization expense | 6(26) | 38,722 | 48,644 |
| Expected credit impairment loss | 12(2) | 14,110 | 9,500 |
| Net loss on financial assets and liabilities at fair value through profit or loss | 6(24) | 106,057 | 6,017 |
| Interest income | | (43,810) | (27,430) |
| Interest expense | 6(25) | 70,539 | 64,279 |
| Compensation cost of employee stock options | 6(16) | 10,884 | 25,669 |
| Share of profit of associates accounted for using equity method | 6(8) | (5,853) | (1,207) |
| (Gain) loss on disposal of property, plant and equipment | 6(24) | (5,799) | 409 |
| Gains from lease modification | 6(24) | (282) | - |
| Changes in operating assets and liabilities | | | |
| Changes in operating assets | | | |
| Financial assets and liabilities at fair value through profit or loss-current | | (41,762) | (15,364) |
| Notes receivable | | 8,853 | (135,992) |
| Accounts receivable | | (1,512,520) | 2,562,876 |
| Other receivables | | (71,526) | 101,768 |
| Inventories | | 3,112,425 | 35,432 |
| Prepayments | | (61,182) | (83,439) |
| Other current assets | | 9,812 | 53,348 |
| Changes in operating liabilities | | | |
| Contract liabilities | | 198,511 | (186,721) |
| Notes payable | | 32,858 | 166,210 |
| Accounts payable | | (978,687) | (1,332,762) |
| Other payables | | (233,806) | (663,439) |
| Provisions for liabilities | | 97,220 | 58,871 |
| Current refund liabilities | | 27,277 | 60,568 |
| Other current liabilities | | 25,952 | (2,509) |
| Net defined benefit liabilities - non-current | | (1,232) | (1,323) |
| Cash inflow generated from operations | | 1,825,351 | 1,530,596 |
| Interest received | | 32,915 | 19,111 |
| Interest paid | | (43,880) | (53,271) |
| Payments of income tax | | (37,760) | (68,369) |
| Net cash flows from operating activities | | 1,776,626 | 1,428,067 |

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SERCOMM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(Expressed in thousands of New Taiwan dollars)

| | Notes | Three months ended March 31 2024 | 2023 |
|---|-------|-------------------------------------|----------------|
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Acquisition of property, plant and equipment | 6(30) | (\$ 319,958) | (\$ 229,862) |
| Proceeds from disposal of property, plant and equipment | | 8,237 | 9,779 |
| Acquisition of intangible assets | 6(30) | (18,771) | (79,297) |
| Acquisition of financial assets at fair value through profit or loss | | (1,000,000) | - |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 350,000 | - |
| Increase in guarantee deposit paid | | (9,813) | (12,112) |
| (Increase) decrease in current financial assets at amortised cost | | (8,469) | 98,758 |
| Net cash flows used in investing activities | | (998,774) | (212,734) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Proceeds from short-term debts | 6(31) | 4,221,200 | 1,380,669 |
| Payments of short-term debts | 6(31) | (3,399,831) | (2,774,834) |
| Proceeds from long-term debts | 6(31) | - | 146,520 |
| Payments of long-term debts | 6(31) | - | (170,640) |
| Proceeds from transfer of treasury shares | 6(18) | - | 85,481 |
| Exercise of employee share options | 6(18) | - | 2,240 |
| Increase in guarantee deposits received | 6(31) | 17,676 | 14,267 |
| Decrease in guarantee deposits received | 6(31) | (20,701) | (11,045) |
| Payments of principal of lease liabilities | 6(31) | (19,714) | (22,495) |
| Net cash flows from (used in) financing activities | | 798,630 | (1,349,837) |
| Effect of exchange rate changes | | 169,610 | 18,583 |
| Net increase (decrease) in cash and cash equivalents | | 1,746,092 | (115,921) |
| Cash and cash equivalents at beginning of period | | 8,830,912 | 8,022,856 |
| Cash and cash equivalents at end of period | | \$ 10,577,004 | \$ 7,906,935 |

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

SERCOMM CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Sercomm Corporation (the “Company”) was incorporated on July 29, 1992. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in research and development, manufacturing and sales of networking communication software and equipment.

The common stocks of the Company were traded on the Taipei Exchange since May 1999 and have been listed on the Taiwan Stock Exchange since December 2007.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorized for issuance by the Board of Directors on May 7, 2024.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS[®]”) Accounting Standards that came into effect as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by FSC and became effective from 2024 are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board</u> |
|--|---|
| Amendments to IFRS 16, ‘Lease liability in a sale and leaseback’ | January 1, 2024 |
| Amendments to IAS 1, ‘Classification of liabilities as current or non-current’ | January 1, 2024 |
| Amendments to IAS 1, ‘Non-current liabilities with covenants’ | January 1, 2024 |
| Amendments to IAS 7 and IFRS 7, ‘Supplier finance arrangements’ | January 1, 2024 |

A. Amendments to IFRS 16, ‘Lease liability in a sale and leaseback’

The amendments to IFRS 16 address the subsequent measurement of the lease liability and the right-of-use asset arising from the leaseback where the lease payments include variable payments that do not depend on an index or rate. The seller-lessee shall determine ‘lease payments’ or ‘revised lease payments’ in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee. The amendments also include examples illustrating the measurement of lease liability for reference.

B. Amendments to IAS 1, 'Classification of liabilities as current or non-current'

The amendments clarify that classification of liabilities depends on the rights that exist at the end of the reporting period. An entity shall classify a liability as current when it does not have a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. Also, the amendments define 'settlement' as the extinguishment of a liability with cash, other economic resources or an entity's own equity instruments. For the terms of a liability that could result in its settlement by the transfer of the entity's own equity instruments, such terms do not affect the classification of liabilities as current or non-current only if the entity classifies the option as an equity instrument to be recognised as an equity component of a compound financial instrument.

C. Amendments to IAS 1, 'Non-current liabilities with covenants'

The amendments clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. The amendments introduce additional disclosure requirements as to non-current liability which is subject to the covenants.

The amendments give companies temporary relief from accounting for deferred income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD). An entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

D. Amendments to IAS 7 and IFRS 7, 'Supplier finance arrangements'

The amendments require disclosures on supplier finance arrangements, including their effects on the Group's liabilities from financing activities and exposure to liquidity risk.

Except for amendments to IFRS 7 whose quantitative impact will be disclosed when the assessment is complete, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

(2) Effect of new issuances of or amendments to IFRS Accounting Standards as endorsed by the FSC but not yet adopted by the Group

None.

(3) IFRS Accounting Standards issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRS Accounting Standards as endorsed by the FSC are as follows:

| <u>New Standards, Interpretations and Amendments</u> | <u>Effective date by International Accounting Standards Board</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 International Accounting Standards Board |
| IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendments to IFRS 17, 'Insurance contracts' | January 1, 2023 |
| Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9 – comparative information' | January 1, 2023 |
| IFRS 18, 'Presentation and disclosure in financial statements' | January 1, 2027 |
| Amendments to IAS 21, 'Lack of exchangeability' | January 1, 2025 |

A. Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'

The amendments resolve a current inconsistency between IFRS 10 and IAS 28. The gain or loss resulting from a transaction that involves sales or contribution of assets between an investor and its associates or joint ventures is recognised either in full or partially depending on the nature of the assets sold or contributed:

- (a) If sales or contributions of assets constitute a 'business', the full gain or loss is recognised;
- (b) If sales or contributions of assets do not constitute a 'business', the partial gain or loss is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

B. IFRS 17, 'Insurance contracts'

IFRS 17 'Insurance contracts' replaces IFRS 4 and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard applies to insurance contracts (including reinsurance contracts) issued, to reinsurance contracts held and to investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts. Embedded derivatives, distinct investment components and distinct performance obligations shall be separated from the insurance contracts. An entity shall, at initial recognition, disaggregate a portfolio into three groups of contracts: onerous, no significant risk of becoming onerous, and remaining contracts. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. An entity may apply a

modified simplified measurement approach (the premium allocation approach) to some insurance contracts. An entity recognises the profit from a group of insurance contracts over the period the entity provides insurance coverage, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognises the loss immediately. Entities are required to present separately insurance revenue, insurance service expenses and insurance finance income or expenses and to disclose information about amounts, judgements and risks arising from insurance contracts.

C. Amendments to IFRS 17, 'Insurance contracts'

The amendments to IFRS 17 include the deferral of effective date, expected recovery of insurance acquisition cash flows, contractual service margin attributable to investment services, reinsurance contracts held – recovery of losses and other amendments, and they are not intended to change the fundamental principles of the standard.

D. Amendment to IFRS 17, 'Initial application of IFRS 17 and IFRS 9' – comparative information'

The amendment permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of IFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9. The overlay can be applied by entities that have already applied IFRS 9 or will apply it when they apply IFRS 17.

E. IFRS 18, 'Presentation and disclosure in financial statements'

IFRS 18, 'Presentation and disclosure in financial statements' replaces IAS 1. The standard introduces a defined structure of the statement of profit or loss, disclosure requirements related to management-defined performance measures, and enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

F. Amendments to IAS 21, 'Lack of exchangeability'

The amendments define exchangeability and provide the related application guidance on how an entity determines the spot exchange rate at the measurement date when a currency lacks exchangeability. In addition, the amendments require entities to provide more useful information in their financial statements when a currency cannot be exchanged into another currency.

Except for IFRS 18, 'Presentation and disclosure in financial statements' to be assessed, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standard 34, ‘Interim financial reporting’ that came into effect as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Financial assets and liabilities at fair value through other comprehensive income.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC[®] Interpretations, and SIC[®] Interpretations that came into effect as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

B. Subsidiaries included in the consolidated financial statements:

| Name of Investment Company | Name of subsidiary | Main business activities | Ownership (%) | | | Remark |
|-------------------------------|--|--|-------------------|----------------------|-------------------|------------|
| | | | March 31, 2024 | December 31, 2023 | March 31, 2023 | |
| The Company | Sercomm USA Inc. | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Trading Co. Ltd. | Overseas investment | 100.00 | 100.00 | 100.00 | |
| " | Sercomm Investment Corp. | General investment | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm France SARL | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Deutschland GmbH | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Japan Corp. | Sales of network communication products and quotation, tender, general import and export business related the products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Russia Limited Liability Company | Sales of network communication products and provision of quotation, tender, general import and export business to the related the products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Technology Inc. | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Britain Limited | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sernet Technology Mexico | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | MosoLabs Inc. | Retail business services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Servercom (India) Private Limited | Manufacturing and sales of communication products, operating system (OS) and related software | 100.00 | 100.00 | 100.00 | Note 4 |
| " | Sercomm Philippines Inc. | Manufacturing and sales of communication products, operating system (OS) and related software | 97.00 | 97.00 | 88.24 | |
| " | Sercomm Brazil Ltda | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | - | Note 4 |
| " | Sernet (India) Private Limited | Manufacturing and sales of communication products, operating system (OS) and related software | 100.00 | - | - | Note 2 、 4 |

| Name of Investment Company | Name of subsidiary | Main business activities | Ownership (%) | | | Remark |
|--|--|---|-------------------|----------------------|-------------------|------------|
| | | | March 31, 2024 | December 31, 2023 | March 31, 2023 | |
| Sercomm Trading Co. Ltd. | Zealous Investments Ltd. | Overseas investment | 100.00 | 100.00 | 100.00 | |
| " | Smart Trade Inc. | Overseas investment | 100.00 | 100.00 | 100.00 | Note 4 |
| Sercomm France SARL | Sercomm Italia SRL | Local market consultation and customer support services of network communication products | 100.00 | 100.00 | 100.00 | Note 4 |
| Zealous Investments Ltd. | Sernet (Suzhou) Technologies Corporation | Research and development (R&D) and manufacturing of communication products | 100.00 | 100.00 | 100.00 | |
| " | Sercomm Philippines Inc. | Manufacturing of communication products, operating system (OS) and related software | 3.00 | 3.00 | 11.76 | |
| " | Refinement Property Holding Inc. | Lease of real estate | 40.00 | 40.00 | 40.00 | Note 1 、 4 |
| Smart Trade Inc. | DWNet Technology (Suzhou) Co., Ltd. | Manufacturing and sales of routers, operating system (OS) and related software | 100.00 | 100.00 | 100.00 | Note 4 |
| Sernet (Suzhou) Technologies Corporation | Suzhou Femtel Communications Co., Ltd. | Sales of network communication products and related software | - | 100.00 | 100.00 | Note 3 、 4 |
| " | Nanjing Femtel Communications Co., Ltd. | Research and development (R&D) of network communication products and related software | 100.00 | 100.00 | - | Note 3 、 4 |
| Suzhou Femtel Communications Co., Ltd. | Nanjing Femtel Communications Co., Ltd. | Research and development (R&D) of network communication products and related software | - | - | 100.00 | Note 3 、 4 |

Note 1: The subsidiary was controlled by the Group so it was included in the consolidated financial statements.

Note 2: The Company injected capital into Sernet (India) Private Limited in the first quarter of 2024.

Note 3: The Group originally reinvested in Nanjing Femtel Communications Co., Ltd. through Suzhou Femtel Communications Co., Ltd. However, in order to simplify the investment structure, Sernet (Suzhou) Technologies Corporation acquired 100% equity interests in Nanjing Femtel Communications Co., Ltd. in the fourth quarter of 2023. On December 15, 2023, Suzhou Femtel Communications Co., Ltd. applied for deregistration with a public announcement. The registration for the change was completed on January 18, 2024.

Note 4: The financial statements of the entity as of and for the three months ended March 31, 2024 and 2023 were not reviewed by the independent auditors as the entity did not meet the definition of a significant subsidiary.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured by using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise, except when deferred in other comprehensive income as qualifying cash flow hedges.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within "other gains and losses."

B. Translation of foreign operations

The operating results and financial position of all the Group's entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognised in other comprehensive income.

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;

- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) It does not have the right at the end of the reporting period to defer settlement of the liability at least twelve months after the reporting period.

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with maturity within 12 months).

(7) Financial assets at fair value through profit or loss

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets; and
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

- (a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.
- (b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(9) Financial assets at amortised cost

A. Financial assets at amortised cost are those that meet all of the following criteria:

- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
- (b) The assets' contractual cash flows represent solely payments of principal and interest.

B. The Group's time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

C. The Group's operating pattern of accounts receivable that are expected to be factored is for the purpose of selling, and the accounts receivable are subsequently measured at fair value, with any changes in fair value recognised in profit or loss.

(11) Impairment of financial assets

For financial assets at amortised cost including accounts receivable or contract assets that have a significant financing component at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Group has not retained control of the financial asset.

(13) Leasing arrangements (lessor)-operating leases

Lease income from an operating lease (net of any incentives given to the lessee) is recognised in profit or loss on a straight-line basis over the lease term.

(14) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

(15) Investments accounted for using the equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognises the Group's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- D. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of.

(16) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

| | |
|------------------------------------|---------------|
| Buildings and structures | 31 ~ 57 years |
| Machinery and equipment | 5 ~ 11 years |
| Research and development equipment | 2 ~ 6 years |
| Office and other equipment | 2 ~ 10 years |
| Leasehold improvements | 3 ~ 5 years |

(17) Leasing arrangements (lessee) - right-of-use assets/ lease liabilities

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the interest rate implicit in the lease. Lease payments are fixed payments, less any lease incentives receivable. The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.
- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
 - (a) The amount of the initial measurement of lease liability; and
 - (b) Any lease payments made at or before the commencement date.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

- D. For lease modifications that decrease the scope of the lease, the lessee shall decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognise the difference between remeasured lease liability in profit or loss.

(18) Intangible assets

A. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 15 years.

B. Internally generated intangible assets-research and development expenditures

(a) Research expenditures are recognised as an expense as incurred.

(b) Development expenditures that do not meet the following criteria are recognised as expenses as incurred, but are recognised as intangible assets when the following criteria are met:

- i. It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- ii. An entity intends to complete the intangible asset and use or sell it;
- iii. An entity has the ability to use or sell the intangible asset;
- iv. It can be demonstrated how the intangible asset will generate probable future economic benefits;
- v. Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- vi. The expenditure attributable to the intangible asset during its development can be reliably measured.

(c) Upon being available for use, internally generated intangible assets are amortised on a straight-line basis over their estimated useful life of 1-5 years.

C. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

D. Patents

Patents are stated at cost and amortised on a straight-line basis over its estimated useful life of 5 years.

(19) Impairment of non-financial assets

- A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(20) Borrowings

- A. Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.
- B. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

(21) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(22) Financial liabilities at fair value through profit or loss

- A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading, except for derivatives that are designated as hedges.
- B. At initial recognition, the Group measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Group subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.
- C. If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(23) Bonds payable

Ordinary corporate bonds issued by the Group are initially recognised at fair value less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is presented as an addition to or deduction from bonds payable, which is amortised to profit or loss over the period of bond circulation using the effective interest method as an adjustment to ‘finance costs’.

(24) Convertible bonds payable

Convertible bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group’s common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Group classifies the bonds payable upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

- A. The embedded call options and put options are recognised initially at net fair value as ‘financial assets or financial liabilities at fair value through profit or loss’. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as ‘gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss’.
- B. The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to ‘finance costs’ over the period of circulation using the effective interest method.
- C. The embedded conversion options which meet the definition of an equity instrument are initially recognised in ‘capital surplus—share options’ at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.
- D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

- E. When bondholders exercise conversion options, the liability component of the bonds(including ‘bonds payable’ and ‘financial assets or financial liabilities at fair value through profit or loss’) shall be remeasured on the conversion date. The issuance cost of converted common shares is the total carrying amount of the abovementioned liability component and ‘capital surplus—share options’.

(25) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expired.

(26) Non-hedging and embedded derivatives

- A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.
- B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognised as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.
- C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(27) Hedge accounting

- A. At the inception of the hedging relationship, there is formal designation and documentation of the hedging relationship and the Group’s risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements.
- B. The Group designates the cash flow hedge as a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.
- C. Cash flow hedges
- (a) The cash flow hedge reserve associated with the hedged item is adjusted to the lower of the following (in absolute amounts):
- i. the cumulative gain or loss on the hedging instrument from inception of the hedge; and

- ii. the cumulative change in fair value of the hedged item from inception of the hedge.
- (b) The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income. The gain or loss on the hedging instrument relating to the ineffective portion is recognised in profit or loss.
- (c) The amount that has been accumulated in the cash flow hedge reserve in accordance with item (a) is accounted for as follows:
 - i. If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability.
 - ii. For cash flow hedges other than those covered by item i. above, that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.
 - iii. If that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.
- (d) When the hedging instrument expires, or is sold, terminated, exercised or when the hedging relationship ceases to meet the qualifying criteria, if the forecast transaction is still expected to occur, the amount that has been accumulated in the cash flow hedge reserve shall remain in the cash flow hedge reserve until the forecast transaction occurs; if the forecast transaction is no longer expected to occur, the amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment.

(28) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(29) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.
- iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. Also, the related information is disclosed accordingly.

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(30) Employee share-based payments

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

B. Restricted stocks:

- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period.
- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Company recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declared.
- (c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Company and the Company must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in 'capital surplus – restricted stock'.

(31) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- G. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(32) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their carrying amount and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(33) Dividends

Cash dividends are recorded as liabilities in the Company's financial statements in the period in which they are resolved by the Company's Board of Directors. Stock dividends are recorded as stock dividends to be distributed in the period in which they are resolved by the Company's shareholders and are reclassified to ordinary shares on the effective date of new shares issuance.

(34) Revenue recognition

- A. Revenue is recognised when control of the products has transferred, and the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

The Group uses five steps to determine the revenue recognition:

Step 1: Identify the contract.

Step 2: Identify the obligation in contract.

Step 3: Determine transaction price.

Step 4: Distribute transaction price to each obligation in contract.

Step 5: Recognise revenue when those obligations are satisfied.

- B. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. A refund liability is recognised for expected payable to customers in relation to sales made until the end of the reporting period.
- C. The Group's obligation to provide a repair for faulty products under the standard warranty terms is recognised as a provision.
- D. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(35) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(36) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group's chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation. For the details of evaluation of inventories, please refer to Note 6.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|---------------------------------------|-----------------------|--------------------------|-----------------------|
| Cash on hand and revolving funds | \$ 3,484 | \$ 2,568 | \$ 2,592 |
| Checking accounts and demand deposits | 4,410,453 | 3,940,140 | 4,689,076 |
| Time deposits | 6,163,067 | 4,888,204 | 3,215,267 |
| | <u>\$ 10,577,004</u> | <u>\$ 8,830,912</u> | <u>\$ 7,906,935</u> |

- A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. The Group's restricted deposits that were pledged as collateral for performance guarantee had been reclassified to 'financial assets at amortised cost'. Refer to Note 8 for details.
- C. The Group has no cash and cash equivalents pledged to others.

(2) Financial assets and liabilities at fair value through profit or loss

| Assets | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|--|---------------------|---------------------|-----------------|
| Current items: | | | |
| Financial assets mandatorily measured at fair value through profit or loss | | | |
| Beneficiary certificate | \$ 1,801,324 | \$ 1,150,000 | \$ - |
| Forward foreign exchange contract | 2,282 | 39,346 | 2,181 |
| Valuation adjustment | 4,581 | 1,244 | - |
| | <u>\$ 1,808,187</u> | <u>\$ 1,190,590</u> | <u>\$ 2,181</u> |
| Non-current items: | | | |
| Financial assets mandatorily measured at fair value through profit or loss | | | |
| Convertible bonds | \$ 4,169 | \$ 4,169 | \$ 4,169 |
| Unlisted stocks | 33,088 | 33,088 | 33,088 |
| Valuation adjustment | (37,257) | (37,257) | (37,257) |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Embedded derivatives | | | |
| The embedded call options and put options in convertible bonds | - | 4,616 | - |
| | <u>\$ -</u> | <u>\$ 4,616</u> | <u>\$ -</u> |
| Liabilities | March 31, 2023 | December 31, 2023 | March 31, 2023 |
| Current items: | | | |
| Financial liabilities held for trading | | | |
| Forward foreign exchange contract | \$ 40,119 | \$ 1,097 | \$ 6,634 |
| Non-Current items | | | |
| Embedded derivatives | | | |
| The embedded call options and put options in convertible bonds | \$ 13,200 | \$ 17,400 | \$ 9,600 |

A. Amounts recognised in profit or loss in relation to financial assets and liabilities at fair value through profit or loss are listed below:

| | Three months ended March 31 | |
|--|-----------------------------|-------------------|
| | 2024 | 2023 |
| Financial assets mandatory measured at fair value through profit or loss/ financial liabilities held for trading | | |
| Embedded derivatives | \$ 7,833 | \$ 13,800 |
| Beneficiary certificate | 4,660 | - |
| Forward foreign exchange contract | (118,550) | (19,817) |
| | <u>(\$ 106,057)</u> | <u>(\$ 6,017)</u> |

B. The Group entered into forward foreign exchange contracts to sell and buy various currency to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting. The summary of contracts not yet matured and entered into by the Group are as follows:

| March 31, 2024 | | | |
|------------------------------------|------------------|-----------------|-------------------------|
| | Currency | Contract period | Contract amount |
| Forward foreign exchange contracts | Buy NTD/Sell USD | 2024/01~2024/04 | USD 86,000 thousand |
| Forward foreign exchange contracts | Buy USD/Sell INR | 2024/03~2024/04 | INR 663,500 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell JPY | 2024/03~2024/04 | JPY 300,000 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell EUR | 2024/03~2024/04 | EUR 17,000 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell GBP | 2024/03~2024/04 | GBP 3,500 thousand |
| December 31, 2023 | | | |
| | Currency | Contract period | Contract amount |
| Forward foreign exchange contracts | Buy USD/Sell VND | 2023/06~2024/04 | VND 41,810,197 thousand |
| Forward foreign exchange contracts | Buy USD/Sell INR | 2023/12~2024/01 | INR 1,418,362 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell JPY | 2023/12~2024/01 | JPY 300,000 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell USD | 2023/12~2024/01 | USD 49,500 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell EUR | 2023/12~2024/01 | EUR 14,000 thousand |
| March 31, 2023 | | | |
| | Currency | Contract period | Contract amount |
| Forward foreign exchange contracts | Buy NTD/Sell USD | 2023/03~2023/04 | USD 21,000 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell EUR | 2023/03~2023/04 | EUR 5,000 thousand |
| Forward foreign exchange contracts | Buy NTD/Sell GBP | 2023/03~2023/04 | GBP 3,000 thousand |

C. The Group's financial assets at fair value through profit or loss were not pledged to others as collateral.

D. Information relating to fair value of financial assets at fair value through profit or loss is provided in Note 12(3).

(3) Financial assets at fair value through other comprehensive income

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|-----------------------------------|------------------|-------------------|-------------------|
| Current items: | | | |
| Designation of equity instruments | | | |
| Listed stocks | \$ - | \$ - | \$ 124,995 |
| Valuation adjustment | - | - | 33,130 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 158,125</u> |
| Non-current items: | | | |
| Designation of equity instruments | | | |
| Unlisted stocks | \$ 69,603 | \$ 69,603 | \$ 69,603 |
| Valuation adjustment | (44,509) | (44,883) | (45,511) |
| | <u>\$ 25,094</u> | <u>\$ 24,720</u> | <u>\$ 24,092</u> |

- A. The Group has elected to classify investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$25,094, \$24,720 and \$182,217 as at March 31, 2024, December 31, 2023 and March 31, 2023, respectively.
- B. Amounts recognised in other comprehensive income in relation to the equity instruments at fair value through other comprehensive income are listed below:

| | Three months ended March 31 | |
|--|-----------------------------|-----------|
| | 2024 | 2023 |
| Unrealised losses from investments in equity instruments measured at fair value through other comprehensive income | | |
| Fair value change recognised in other comprehensive income | \$ 374 | \$ 17,829 |

- C. The Group's financial assets at fair value through other comprehensive income were not pledged to others as collateral.
- D. Information relating to fair value of financial assets at fair value through other comprehensive income is provided in Note 12(3).

(4) Hedging financial assets and liabilities

| | March 31, 2024 | | | |
|-----------------------------------|-------------------|-------------|-------------|-------------|
| | Assets | | Liabilities | |
| | Current | Non-current | Current | Non-current |
| Cash flow hedges: | | | | |
| <u>Exchange rate risk</u> | | | | |
| Forward foreign exchange contract | \$ 21,299 | \$ - | \$ 512 | \$ - |
| | December 31, 2023 | | | |
| | Assets | | Liabilities | |
| | Current | Non-current | Current | Non-current |
| Cash flow hedges: | | | | |
| <u>Exchange rate risk</u> | | | | |
| Forward foreign exchange contract | \$ 998 | \$ - | \$ 32,490 | \$ 3,757 |
| | March 31, 2023 | | | |
| | Assets | | Liabilities | |
| | Current | Non-current | Current | Non-current |
| Cash flow hedges: | | | | |
| <u>Exchange rate risk</u> | | | | |
| Forward foreign exchange contract | \$ 25 | \$ - | \$ 78,148 | \$ 6,724 |

- A. Hedge accounting is applied to remove the accounting inconsistency between the hedging instrument and the hedged item. As the Group's EUR and GBP denominated accounts receivable, and USD denominated accounts payable are exposed to the impact of variable exchange rate, the Group uses forward foreign exchange contract of exposed risk with 1:1 hedge ratio to control the exchange rate risk under their acceptable range based on the Group's risk management policies.

B. Transaction information associated with the Group adopting hedge accounting is as follows:

| March 31, 2024 | | | | |
|----------------------|---|--|---------------------------------|---|
| Hedged items | Derivative instruments designated as hedges | Fair value of instruments designated as hedges | Period of anticipated cash flow | Period of gain (loss) expected to be recognised in statements of comprehensive income |
| Forecast transaction | Forward foreign exchange contracts | \$ 20,787 | 2024/04~2025/02 | 2024/04~2025/02 |
| December 31, 2023 | | | | |
| Hedged items | Derivative instruments designated as hedges | Fair value of instruments designated as hedges | Period of anticipated cash flow | Period of gain (loss) expected to be recognised in statements of comprehensive income |
| Forecast transaction | Forward foreign exchange contracts | (\$ 35,249) | 2024/01~2025/02 | 2024/01~2025/02 |
| March 31, 2023 | | | | |
| Hedged items | Derivative instruments designated as hedges | Fair value of instruments designated as hedges | Period of anticipated cash flow | Period of gain (loss) expected to be recognised in statements of comprehensive income |
| Forecast transaction | Forward foreign exchange contracts | (\$ 84,847) | 2023/04~2024/12 | 2023/04~2024/12 |

C. Information of contracts not yet matured is as follows:

| March 31, 2024 | | | | |
|------------------------------------|--------------------|-----------------|-----------------|-----------------|
| | Currency | Contract period | Contract amount | |
| Forward foreign exchange contracts | Sell GBP / Buy USD | 2023/03~2024/04 | GBP | 400 thousand |
| Forward foreign exchange contracts | Sell EUR / Buy USD | 2023/03~2025/02 | EUR | 43,000 thousand |

| December 31, 2023 | | | | |
|------------------------------------|--------------------|-----------------|-----------------|------------------|
| | Currency | Contract period | Contract amount | |
| Forward foreign exchange contracts | Sell GBP / Buy USD | 2022/12~2024/04 | GBP | 4,900 thousand |
| Forward foreign exchange contracts | Sell EUR / Buy USD | 2023/03~2025/02 | EUR | 61,000 thousand |
| March 31, 2023 | | | | |
| | Currency | Contract period | Contract amount | |
| Forward foreign exchange contracts | Sell GBP / Buy USD | 2022/10~2024/04 | GBP | 10,930 thousand |
| Forward foreign exchange contracts | Sell EUR / Buy USD | 2022/11~2024/12 | EUR | 114,000 thousand |

D. Cash flow hedge:

| | 2024 | 2023 |
|---|------------------|--------------------|
| <u>Other equity – cash flow hedge reserve</u> | | |
| At January 1 | (\$ 28,201) | (\$ 104,611) |
| Profit or loss on hedge effectiveness-amount recognised in other comprehensive income | 45,452 (| 46,741) |
| Reclassified to profit or loss as the hedged item has affected profit or loss | (1,834) | 21,216 |
| Adjusted inventories as the hedged item has not been sold | (2,858) | 57,392 |
| Reclassified to profit or loss-forecast transaction is no longer expected to occur | 4,069 | 4,865 |
| At March 31 | <u>\$ 16,628</u> | <u>(\$ 67,879)</u> |

To hedge exposed exchange rate risk arising from forecast sales revenue and forecast purchase of inventory, the Group entered into a forward forecast sale agreement of EUR and GBP, or/and a forward forecast purchase agreement of USD, and the hedge ratio is 1:1. The effective portion with respect to the changes in the fair value of the hedging instruments is deferred to recognise in the cash flow hedge reserve, which is under other comprehensive income, and will be directly included in the sales revenue when the hedged items are subsequently recognised in accounts receivable; and will be directly included in the cost of inventory when the hedge items are subsequently recognised in inventory.

- E. Information relating to credit risk of hedging financial assets and liabilities is provided in Note 12(3).

(5) Notes and accounts receivable

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|--------------------------|----------------------|----------------------|---------------------|
| Notes receivable | \$ 69,285 | \$ 78,138 | \$ 174,793 |
| Accounts receivable | \$ 13,072,720 | \$ 11,560,200 | \$ 8,135,956 |
| Less: Allowance for loss | (72,070) | (57,598) | (29,430) |
| | <u>\$ 13,000,650</u> | <u>\$ 11,502,602</u> | <u>\$ 8,106,526</u> |

A. None of the Group's notes receivable are overdue. For the ageing analysis of the notes receivable and accounts receivable, please refer to Note 12(2).

The Group grants credit term to customers from 30 days to 210 days after the delivery date. Ageing analysis is conducted on the basis of the number of days overdue. Please refer to Note 12 for disclosures of credit risk and information on movement of impairment and analysis of accounts receivable.

B. As of March 31, 2024, December 31, 2023 and March 31, 2023, the balances of receivables (including notes receivable) were all from contracts with customers. And as of January 1, 2023, the total balance of receivables from contracts with customers amounted to \$10,737,633 and loss allowance amounted to \$19,897.

C. As of March 31, 2024, December 31, 2023 and March 31, 2023, without taking into account any other credit enhancements, the maximum hedge to credit risk in respect of the amount that best represents the Group's notes receivable and accounts receivable were \$13,069,935, \$11,580,740, and \$8,281,319, respectively.

(6) Transfer of financial assets

A. The Group entered into a factoring agreement with financial institutions to sell its accounts receivable. Under the agreement, the Group prepared an offering document of purchase. The offering document states that the factoring is without the right of recourse, and the Group is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute. The Group does not have any continuing involvement in the transferred accounts receivable, thus, the condition of financial asset derecognition is met.

The derecognised accounts receivable are summarised as follows:

| March 31, 2024 | | | | | | |
|-------------------------------------|---------------------------------------|------------------------|----------------|--------------------|------------------------------------|--|
| Purchaser of accounts receivable | Accounts receivable transferred | Amount derecognised | Facilities | Amount advanced | Amount available for advance | Interest rate range of amount advanced |
| DBS Bank (Taiwan) Ltd. | \$ - | \$ - | USD 73,313,000 | \$ - | \$ - | - |
| Taipei Fubon Commercial Bank | 747,187 (USD 23,357,000) | 747,187 | USD 75,000,000 | 671,790 | 75,397 | 5.78% |
| | <u>\$ 747,187</u> | <u>\$ 747,187</u> | | <u>\$ 671,790</u> | <u>\$ 75,397</u> | |

| December 31, 2023 | | | | | | |
|---|--|--------------------------------|-------------------|--------------------------------|---|---|
| <u>Purchaser of accounts receivable</u> | <u>Accounts receivable transferred</u> | <u>Amount derecognised</u> | <u>Facilities</u> | <u>Amount advanced</u> | <u>Amount available for advance</u> | <u>Interest rate range of amount advanced</u> |
| DBS Bank (Taiwan) Ltd. | \$ 783,922 (USD 25,506,000) | \$ 783,922 | USD 73,313,000 | \$ 694,480 (USD 22,596,000) | \$ 89,442 | 5.90%~5.95% |
| Taipei Fubon Commercial Bank | 325,280 (USD 10,583,000) | 325,280 | USD 75,000,000 | 291,983 (USD 9,500,000) | 33,297 | 5.98% |
| | <u>\$ 1,109,202</u> | <u>\$ 1,109,202</u> | | <u>\$ 986,463</u> | <u>\$ 122,739</u> | |

| March 31, 2023 | | | | | | |
|---|--|--------------------------------|-------------------|----------------------------------|---|---|
| <u>Purchaser of accounts receivable</u> | <u>Accounts receivable transferred</u> | <u>Amount derecognised</u> | <u>Facilities</u> | <u>Amount advanced</u> | <u>Amount available for advance</u> | <u>Interest rate range of amount advanced</u> |
| DBS Bank (Taiwan) Ltd. | \$ 1,217,787 (USD 39,988,000) | \$ 1,217,787 | USD 73,313,000 | \$ 1,091,952 (USD 35,856,000) | \$ 125,835 | 5.71%~5.97% |
| Taipei Fubon Commercial Bank | 1,685,104 (USD 55,333,000) | 1,685,104 | USD 40,500,000 | 1,513,102 (USD 49,685,000) | 172,002 | 5.74% |
| | <u>\$ 2,902,891</u> | <u>\$ 2,902,891</u> | | <u>\$ 2,605,054</u> | <u>\$ 297,837</u> | |

B. As of March 31, 2024, December 31, 2023 and March 31, 2023, the amount that arose from factoring of accounts receivable but not yet received from banks in advance amounted to \$75,397, \$122,739 and \$297,837, respectively, which were reclassified as other receivables.

C. Information of the pledged assets due to above factoring agreements are provided in Note 9.

(7) Inventories

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|----------------------|-----------------------|--------------------------|-----------------------|
| Raw materials | \$ 7,123,230 | \$ 8,947,088 | \$ 7,309,614 |
| Work in progress | 1,459,845 | 1,449,115 | 1,764,407 |
| Finished goods | 5,132,047 | 6,884,618 | 6,707,538 |
| Inventory in transit | 705,750 | 252,476 | 1,026,772 |
| | <u>\$ 14,420,872</u> | <u>\$ 17,533,297</u> | <u>\$ 16,808,331</u> |

The cost of inventories recognised as expense for the period:

| | <u>Three months ended March 31</u> | |
|--|------------------------------------|----------------------|
| | <u>2024</u> | <u>2023</u> |
| Cost of goods sold | \$ 13,095,380 | \$ 13,446,997 |
| Write-downs of inventories to net realizable value | 290,692 | 67,755 |
| | <u>\$ 13,386,072</u> | <u>\$ 13,514,752</u> |

(8) Investments accounted for using the equity method

| | 2024 | 2023 |
|---|-----------|----------|
| At January 1 | \$ 7,305 | \$ 7,732 |
| Share of profit or loss of investments accounted for using the equity method | 5,853 | 1,207 |
| Effect of exchange rate changes | 134 | 122 |
| At March 31 | \$ 13,292 | \$ 9,061 |

- A. The Group acquired 30% of the shares of the associated company, MECSware GmbH, whose principal place of business is in Germany, its net income for the three months ended March 31, 2024 and 2023 were \$19,507 and \$4,022, respectively.
- B. The aforementioned investments accounted for using equity method were measured based on the associate's financial statements which were not reviewed by independent auditors.

(blank)

(9) Property, plant and equipment

| | 2024 | | | | | | | |
|--------------------------|---------------------|--------------------------|-------------------------|------------------------------------|----------------------------|------------------------|-------------------------|---------------------|
| | Land | Buildings and structures | Machinery and equipment | Research and development equipment | Office and other equipment | Leasehold improvements | Unfinished construction | Total |
| January 1 | | | | | | | | |
| Cost | \$ 1,455,406 | \$ 2,144,582 | \$ 3,156,407 | \$ 1,322,708 | \$ 1,590,085 | \$ 4,312 | \$ 319,259 | \$ 9,992,759 |
| Accumulated depreciation | - | (540,300) | (2,086,474) | (1,003,698) | (990,956) | (3,503) | - | (4,624,931) |
| | <u>\$ 1,455,406</u> | <u>\$ 1,604,282</u> | <u>\$ 1,069,933</u> | <u>\$ 319,010</u> | <u>\$ 599,129</u> | <u>\$ 809</u> | <u>\$ 319,259</u> | <u>\$ 5,367,828</u> |
| At January 1 | \$ 1,455,406 | \$ 1,604,282 | \$ 1,069,933 | \$ 319,010 | \$ 599,129 | \$ 809 | \$ 319,259 | \$ 5,367,828 |
| Additions | - | - | 149,606 | 38,894 | 60,827 | - | 12,506 | 261,833 |
| Reclassifications | - | - | 4,272 | (758) | 8,833 | - | - | 12,347 |
| Disposals | - | - | (817) | - | (1,621) | - | - | (2,438) |
| Depreciation charge | - | (14,635) | (72,868) | (28,620) | (49,005) | (220) | - | (165,348) |
| Net exchange differences | 5,038 | 21,526 | 22,291 | 2,417 | 3,491 | 18 | 8,551 | 63,332 |
| At March 31 | <u>\$ 1,460,444</u> | <u>\$ 1,611,173</u> | <u>\$ 1,172,417</u> | <u>\$ 330,943</u> | <u>\$ 621,654</u> | <u>\$ 607</u> | <u>\$ 340,316</u> | <u>\$ 5,537,554</u> |
| March 31 | | | | | | | | |
| Cost | \$ 1,460,444 | \$ 2,172,898 | \$ 3,175,424 | \$ 1,372,203 | \$ 1,650,516 | \$ 4,407 | \$ 340,316 | \$ 10,176,208 |
| Accumulated depreciation | - | (561,725) | (2,003,007) | (1,041,260) | (1,028,862) | (3,800) | - | (4,638,654) |
| | <u>\$ 1,460,444</u> | <u>\$ 1,611,173</u> | <u>\$ 1,172,417</u> | <u>\$ 330,943</u> | <u>\$ 621,654</u> | <u>\$ 607</u> | <u>\$ 340,316</u> | <u>\$ 5,537,554</u> |

| 2023 | | | | | | | | |
|--------------------------|---------------------|--------------------------|-------------------------|------------------------------------|----------------------------|------------------------|-------------------------|---------------------|
| | Land | Buildings and structures | Machinery and equipment | Research and development equipment | Office and other equipment | Leasehold improvements | Unfinished construction | Total |
| January 1 | | | | | | | | |
| Cost | \$ 1,454,778 | \$ 1,960,767 | \$ 3,030,820 | \$ 1,227,385 | \$ 1,425,528 | \$ 5,500 | \$ 156,664 | \$ 9,261,442 |
| Accumulated depreciation | - | (490,132) | (2,090,341) | (913,116) | (835,834) | (3,796) | - | (4,333,219) |
| | <u>\$ 1,454,778</u> | <u>\$ 1,470,635</u> | <u>\$ 940,479</u> | <u>\$ 314,269</u> | <u>\$ 589,694</u> | <u>\$ 1,704</u> | <u>\$ 156,664</u> | <u>\$ 4,928,223</u> |
| At January 1 | \$ 1,454,778 | \$ 1,470,635 | \$ 940,479 | \$ 314,269 | \$ 589,694 | \$ 1,704 | \$ 156,664 | \$ 4,928,223 |
| Additions | - | 2,046 | 96,628 | 24,256 | 48,989 | - | 89,942 | 261,861 |
| Reclassifications | - | - | 12,278 | - | 8,121 | - | - | 20,399 |
| Disposals | - | - | (9,848) | (331) | (9) | - | - | (10,188) |
| Depreciation charge | - | (13,353) | (55,806) | (30,748) | (44,516) | (220) | - | (144,643) |
| Net exchange differences | 2,939 | 5,358 | 7,111 | 330 | 928 | 5 | 516 | 17,187 |
| At March 31 | <u>\$ 1,457,717</u> | <u>\$ 1,464,686</u> | <u>\$ 990,842</u> | <u>\$ 307,776</u> | <u>\$ 603,207</u> | <u>\$ 1,489</u> | <u>\$ 247,122</u> | <u>\$ 5,072,839</u> |
| March 31 | | | | | | | | |
| Cost | \$ 1,457,717 | \$ 1,969,173 | \$ 3,096,403 | \$ 1,248,457 | \$ 1,482,354 | \$ 5,518 | \$ 247,122 | \$ 9,506,744 |
| Accumulated depreciation | - | (504,487) | (2,105,561) | (940,681) | (879,147) | (4,029) | - | (4,433,905) |
| | <u>\$ 1,457,717</u> | <u>\$ 1,464,686</u> | <u>\$ 990,842</u> | <u>\$ 307,776</u> | <u>\$ 603,207</u> | <u>\$ 1,489</u> | <u>\$ 247,122</u> | <u>\$ 5,072,839</u> |

Information about the property, plant and equipment that were pledged to others as collaterals is provided in Note 8.

(10) Leasing arrangements - lessee

- A. The Group leases various assets including land, land use right, buildings and equipment. Lease agreements are typically made for periods of 2 to 40 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any restriction to the Group, but leased assets may not be used as collateral for borrowing, transfer, sublease and share purposes.
- B. Short-term leases with a lease term of no more than 12 months include certain dormitories, business vehicles and premises.
- C. The movements of right-of-use assets of the Group are as follows:

| 2024 | | | | | | |
|--------------------------|-----------------|------------------|-------------------|-------------------------|--------------------------|-------------------|
| | Land | Land use right | Buildings | Machinery and equipment | Transportation equipment | Total |
| At January 1 | \$ 3,901 | \$ 71,579 | \$ 300,375 | \$ 1,117 | \$ 797 | \$ 377,769 |
| Lease modifications | - | - | (2,761) | - | - | (2,761) |
| Depreciation charge | (488) | (688) | (29,979) | (113) | (92) | (31,360) |
| Net exchange differences | - | 1,570 | 3,314 | 29 | - | 4,913 |
| At March 31 | <u>\$ 3,413</u> | <u>\$ 72,461</u> | <u>\$ 270,949</u> | <u>\$ 1,033</u> | <u>\$ 705</u> | <u>\$ 348,561</u> |
| 2023 | | | | | | |
| | Land | Land use right | Buildings | Machinery and equipment | Transportation equipment | Total |
| At January 1 | \$ - | \$ 75,705 | \$ 391,999 | \$ 1,560 | \$ - | \$ 469,264 |
| Additions | 5,796 | - | 862 | - | 1,104 | 7,762 |
| Lease modifications | - | - | 277 | - | - | 277 |
| Depreciation charge | (433) | (688) | (30,494) | (111) | (31) | (31,757) |
| Net exchange differences | - | 250 | 1,510 | 23 | - | 1,783 |
| At March 31 | <u>\$ 5,363</u> | <u>\$ 75,267</u> | <u>\$ 364,154</u> | <u>\$ 1,472</u> | <u>\$ 1,073</u> | <u>\$ 447,329</u> |

- D. The information on income and expense accounts relating to lease agreements is as follows:

| | Three months ended March 31 | |
|---------------------------------------|-----------------------------|----------|
| | 2024 | 2023 |
| <u>Items affecting profit or loss</u> | | |
| Interest expense on lease liabilities | \$ 1,406 | \$ 1,448 |
| Expense on short-term lease contracts | 5,644 | 9,880 |
| Expense on leases of low-value assets | 200 | 96 |
| Gains from lease modification | 282 | - |

- E. For the three months ended March 31, 2024 and 2023, the Group's total cash outflow for leases amounted to \$26,964 and \$33,919, respectively.

(11) Intangible assets

| | Computer software | Development expenditure | Goodwill | Patents | Total |
|--|----------------------|----------------------------|-------------|-----------------|-------------------|
| January 1, 2024 | | | | | |
| Cost | \$ 1,077,351 | \$ 320,102 | \$ 46,458 | \$ 29,258 | \$ 1,473,169 |
| Accumulated amortisation and impairment | (707,594) | (320,102) | (46,458) | (20,544) | (1,094,698) |
| | <u>\$ 369,757</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,714</u> | <u>\$ 378,471</u> |
| At January 1, 2024 | \$ 369,757 | \$ - | \$ - | \$ 8,714 | \$ 378,471 |
| Additions-acquired separately | 26,577 | - | - | 96 | 26,673 |
| Amortisation charge | (37,778) | - | - | (944) | (38,722) |
| Net exchange differences | 226 | - | - | - | 226 |
| At March 31, 2024 | <u>\$ 358,782</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,866</u> | <u>\$ 366,648</u> |
| March 31, 2024 | | | | | |
| Cost | \$ 1,090,863 | \$ 320,102 | \$ - | \$ 29,354 | \$ 1,440,319 |
| Accumulated amortisation | (732,081) | (320,102) | - | (21,488) | (1,073,671) |
| | <u>\$ 358,782</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,866</u> | <u>\$ 366,648</u> |
| | Computer software | Development expenditure | Goodwill | Patents | Total |
| January 1, 2023 | | | | | |
| Cost | \$ 979,188 | \$ 314,716 | \$ 46,458 | \$ 26,946 | \$ 1,367,308 |
| Accumulated amortisation and impairment | (537,267) | (287,729) | (46,458) | (17,008) | (888,462) |
| | <u>\$ 441,921</u> | <u>\$ 26,987</u> | <u>\$ -</u> | <u>\$ 9,938</u> | <u>\$ 478,846</u> |
| At January 1, 2023 | \$ 441,921 | \$ 26,987 | \$ - | \$ 9,938 | \$ 478,846 |
| Additions-acquired separately | 62,484 | - | - | 706 | 63,190 |
| Additions-from internal development | - | 5,386 | - | - | 5,386 |
| Amortisation charge | (39,423) | (8,244) | - | (977) | (48,644) |
| Net exchange differences | 35 | - | - | - | 35 |
| At March 31, 2023 | <u>\$ 465,017</u> | <u>\$ 24,129</u> | <u>\$ -</u> | <u>\$ 9,667</u> | <u>\$ 498,813</u> |
| March 31, 2023 | | | | | |
| Cost | \$ 1,041,751 | \$ 320,102 | \$ 46,458 | \$ 27,652 | \$ 1,435,963 |
| Accumulated amortisation and impairment | (576,734) | (295,973) | (46,458) | (17,985) | (937,150) |
| | <u>\$ 465,017</u> | <u>\$ 24,129</u> | <u>\$ -</u> | <u>\$ 9,667</u> | <u>\$ 498,813</u> |

A. Details of amortisation on intangible assets are as follows:

| | Three months ended March 31 | |
|--------------------|-----------------------------|------------------|
| | 2024 | 2023 |
| Operating costs | \$ 159 | \$ 8,449 |
| Operating expenses | 38,563 | 40,195 |
| | <u>\$ 38,722</u> | <u>\$ 48,644</u> |

B. The Group has no intangible assets pledged to others as collateral.

(12) Short-term borrowings

| Type of borrowings | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|----------------------|----------------|-------------------|----------------|
| Bank borrowings | | | |
| Unsecured borrowings | \$ 1,251,294 | \$ 429,925 | \$ 245,830 |
| Interest rate range | 2.7%~5.77% | 2.9%~4.29% | 0.69%~3.38% |

(13) Bonds payable

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|---|----------------|-------------------|----------------|
| Bonds payable | \$ 3,700,000 | \$ 3,700,000 | \$ 3,700,000 |
| Unsecured convertible bonds payable | 3,000,000 | 4,591,600 | 3,000,000 |
| Less: Discount on bonds payable | (238,356) | (321,810) | (166,229) |
| Less: Current portion corporate bonds due within one year | (2,300,000) | (2,300,000) | - |
| | \$ 4,161,644 | \$ 5,669,790 | \$ 6,533,771 |

A. The terms of the unsecured corporate bonds issued by the Company are as follows:

The Company issued the first domestic unsecured corporate bonds in 2020 and 2019 amounting to \$1,400,000 and \$2,300,000 based on the face value at an annual rate of 1% and 1.02%, respectively, as approved by the regulatory authority. Those bonds mature in 5 years from the issue date, and the periods are from July 17, 2020 to July 17, 2025 and July 26, 2019 to July 26, 2024, respectively. The bonds are listed on the Taipei Exchange and will be redeemed in cash at face value at the maturity date.

B. The issuance of domestic convertible bonds by the Company are as follows:

- (a) The Company issued the sixth domestic unsecured convertible bonds in 2022 amounting to \$3,000,000 based on the face value at an annual rate of 0%, as approved by the regulatory authority. The bonds mature in 5 years from the issue date, and the period is from May 17, 2022 to May 17, 2027. The bond is listed on the Taipei Exchange and will be redeemed in cash at face value at the maturity date.
- (b) The bondholders have the right to ask for conversion of the bonds into common shares of the Company during the period from the date after three months of the bonds issue to the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
- (c) The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and the conversion price at issuance was NT\$100 (in dollars). The aforementioned conversion price had been reset as NT\$95 (in dollars) according to the terms starting from April 19, 2023 (the effective date of price resetting). For the three months ended March 31, 2024, the amount that the bondholders applied to exercise was \$1,591,600, the 16,753 thousand ordinary shares were exchanged and capital surplus had been increased by \$1,346,975 due to the exercise of conversion options. As of March 4, 2024 (the date of the bonds' termination of listing on the Taipei Exchange), the bonds totaling \$3,000,000 (face value) all had been converted. The 5,263 exchanged ordinary shares were shown as 'advance receipts for share capital' as the effective date of the capital increase was yet to be resolved by the Board of Directors.

- (d) The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value in cash upon three years.
 - (e) The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after three months of the bonds issue to 40 days before the maturity date, or the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.
 - (f) Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued or re-sold and all rights and obligations attached to the bonds are also extinguished.
 - (g) Regarding the issuance of convertible bonds, the equity conversion options amounting to \$209,400 were separated from the liability component and were recognised in 'capital surplus-share options' in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in 'financial liabilities at fair value through profit or loss' in net amount of \$20,700 in accordance with IFRS 9 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. Convertible bonds were recorded at the fair value when issuing, and the discount amount of the bonds was \$200,100. The effective interest rate of the bonds payable after such separation was 1.38 %.
- C. The issuance of the seventh domestic unsecured convertible bonds by the Company are as follows:
- (a) The Company issued the seventh domestic unsecured convertible bonds amounting to \$3,000,000 based on the face value at an annual rate of 0%, as approved by the regulatory authority. The bonds mature in 5 years from the issue date, and the period is from December 6, 2023 to December 6, 2028. The bond is listed on the Taipei Exchange and will be redeemed in cash at face value at the maturity date.
 - (b) The bondholders have the right to ask for conversion of the bonds into common shares of the Company during the period from the date after three months of the bonds issue to the maturity date, except for the stop transfer period as specified in the terms of the bonds or the laws. The rights and obligations of the new shares converted from the bonds are the same as the issued and outstanding common shares.
 - (c) The conversion price of the bonds is set up based on the pricing model in the terms of the bonds, and the conversion price at issuance was NT\$145 (in dollars). The aforementioned conversion price had been reset as NT\$139.6 (in dollars) according to the terms starting from March 29, 2024 (the effective date of price resetting).
 - (d) The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value in cash upon three years.
 - (e) The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: the closing price of the Company common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after three months of the bonds issue to 40 days before the maturity date, or the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.

- (f) Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued or re-sold and all rights and obligations attached to the bonds are also extinguished.
- (g) Regarding the issuance of convertible bonds, the equity conversion options amounting to \$322,500 were separated from the liability component and were recognised in ‘capital surplus-share options’ in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in ‘financial liabilities at fair value through profit or loss’ in net amount of \$21,300 in accordance with IFRS 9 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. Convertible bonds were recorded at the fair value when issuing, and the discount amount of the bonds was \$253,800. The effective interest rate of the bonds payable after such separation was 1.77 %.

(14) Long-term borrowings(March 31, 2024 and December 31, 2023 : Nil.)

| Type of borrowings | Borrowing period | March 31, 2023 | Interest rate |
|--------------------|---|----------------|---------------|
| Secured borrowings | Borrowing period is from December 22, 2021 to December 22, 2026 | \$ 663,000 | 3.19%~3.52% |

- A. In December 2021, the Group has entered a medium and long-term syndicated revolving credit facility agreement. The credit line was \$1,700,000, which can be drawn down in installments, the duration of each loan drawn down is no longer than 180 days, if without any default, the Group may submit an application to the bank to draw down a new loan with principal equal to the original loan before its maturity, and the new loan is directly used to repay the original loan. The bank and the Group are not required to make remittances for such draw-down and repayment, which is considered that the Group has received the new loan on the maturity of original loan. Additionally, the Group had early terminated the above borrowing contract in December 2023 due to capital management.
- B. The Group about the long-term borrowings that were secured is provided in Note 8.

(15) Pensions

A. Defined benefit plans

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.

- (b) The pension costs under defined contribution pension plans of the Company for the three months ended March 31, 2024 and 2023 were \$331 and \$219, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Company for the year ended December 31, 2024 amount to \$6,299. As of March 31, 2024, the Company made contributions amounting to \$1,563.

B. Defined contribution plans

- (a) The Company and its domestic subsidiaries have established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company’s Mainland China subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People’s Republic of China (PRC) are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The Group’s other foreign subsidiaries contributed pension to the relevant pension authorities under local regulations.
- (d) The pension costs under defined contribution pension plans of the Group for the three months March 31, 2024 and 2023 were \$90,793 and \$78,977, respectively.

(16) Share-based payment

- A. Certain employees of the Company are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.
- B. The arrangements of share-based payment for the three months ended March 31, 2024 and 2023 are as follows:

| Type of arrangement | Grant date | Grant quantity (in thousand) | Contract period | Vesting condition |
|--|------------|---------------------------------|-----------------|--------------------|
| Employee option plan | 2020.08.20 | 12,000 | 10 years | (Note 1) |
| Treasury share to employee plan | 2023.03.09 | 1,100 | N/A | Immediately vested |
| Employee option plan | 2023.05.03 | 3,000 | 10 years | (Note 2) |
| The vesting conditions of restricted stocks to employees | 2023.08.15 | 2,596 | N/A | (Note 3) |

(Note 1) The Company issues new shares when employees exercise options. The vesting period of option and exercisable ratio are as follows:

| <u>Vesting period of option</u> | <u>Accumulated ratio of exercisable stock option</u> |
|---------------------------------|--|
| After 2 years | 50% |
| After 3 years | 75% |
| After 4 years | 100% |

(Note 2) The Company issues new shares when employees exercise options. The vesting period of option and exercisable ratio are as follows:

| <u>Vesting period of option</u> | <u>Accumulated ratio of exercisable stock option</u> |
|---------------------------------|--|
| After 2 years | 100% |

(Note 3) The vesting conditions of restricted stocks to employees are the conditions for the service period and performance achievements.

The restricted stocks issued by the Group cannot be transferred during the vesting period, but voting right and dividend right are not restricted on these stocks. Employees are required to return the stocks but not required to return the dividends received if they resign during the vesting period.

C. Details of the share-based payment arrangements in 2020 are as follows:

| | 2024 | | 2023 | |
|----------------------------------|---------------------------------|--|---------------------------------|--|
| | No. of options (in thousand) | Weighted-average exercise price (in dollars) | No. of options (in thousand) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | 3,164 | \$ 26.6 | 6,124 | \$ 28.0 |
| Options exercised | - | - | (80) | 28.0 |
| Options outstanding at March 31 | 3,164 | 26.6 | 6,044 | 28.0 |
| Options exercisable at March 31 | 164 | | 44 | |

As at March 31, 2024, December 31, 2023 and March 31, 2023, the exercise prices of stock options outstanding was NT\$26.6 (in dollars), NT\$26.6 (in dollars) and NT\$28 (in dollars), respectively; the remaining contractual period was 6.4 years, 6.6 years, and 7.4 years, respectively.

D. Details of the share-based payment arrangements in 2023 are as follows: (The three months ended March 31, 2023 : Nil.)

| | 2024 | |
|----------------------------------|---------------------------------|--|
| | No. of options (in thousand) | Weighted-average exercise price (in dollars) |
| Options outstanding at January 1 | 3,000 | \$ 82.9 |
| Options exercised | - | - |
| Options outstanding at March 31 | <u>3,000</u> | 82.9 |
| Options exercisable at March 31 | <u>-</u> | |

As at March 31, 2024, the exercise prices of stock options outstanding was NT\$82.9 (in dollars); the remaining contractual period was 9.1 years.

- E. The weighted-average stock price of stock options at exercise dates for the three months ended March 31, 2023 was NT \$91.1 (in dollars).
- F. The fair value of stock options granted on grant date is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

| Type of arrangement | Grant date | Stock price (in dollars) | Exercise price (in dollars) (Note 1) | Expected price Volatility (Notes 3) | Expected option life (Note 4) | Expected dividends | Risk-free interest rate | Fair value per unit (in dollars) |
|--|------------|-----------------------------|--|---|-------------------------------------|-----------------------|----------------------------|--|
| Employee stock options 2020.8.20 | | | | | | | | |
| -After 2 years | | \$ 74.7 | \$ 30 | 27.61% | 6.0 years | 3.88% | 0.33% | \$ 31.90 |
| -After 3 years | | 74.7 | 30 | 27.84% | 7.0 years | 3.88% | 0.35% | 30.54 |
| -After 4 years | | 74.7 | 30 | 27.50% | 8.0 years | 3.88% | 0.36% | 29.14 |
| Type of arrangement | Grant date | Stock price (in dollars) | Exercise price (in dollars) (Note 1) | Expected price Volatility (Notes 3) | Expected option life (Note 4) | Expected dividends | Risk-free interest rate | Fair value per unit (in dollars) |
| Employee stock options 2023.5.3 | | | | | | | | |
| -After 2 years | | \$ 82.9 | \$ 82.9 | 29.71% | 6.0 years | 4.53% | 1.12% | \$ 13.55 |
| Type of arrangement | Grant date | Stock price (in dollars) | Exercise price (in dollars) | Expected price Volatility | Expected option life | Expected dividends | Risk-free interest rate | Fair value per unit (in dollars) |
| The vesting conditions of restricted stocks to employees | 2023.8.15 | \$ 114.0 | \$ 60.0 | - | - | - | - | \$ 54.00 |

Note 1: The exercise prices have been adjusted to reflect the change of outstanding shares (e.g., issuance of new shares for cash to increase capital, cash dividends, an appropriation of earnings, issuance of new shares in connection with merger or acquiring shares of other companies.) in accordance with the employee stock option plan.

Note 2: Expected price volatility is based on the historical average volatility of one year before valuation date. The source is from the Taiwan Stock Exchange.

Note 3: Expected price volatility is based on the recent historical average volatility of the stock prices coincident with expected life of each tranche of the stock options. The source is from the Taiwan Stock Exchange.

Note 4: The expected life of the share options is based on historical data and current expectations.

G. The Company transferred treasury shares to employees, the fair value of the award and its detailed information are as follows:

| Type of arrangement | Grant date | Stock price (in dollars) | Exercise price (in dollars) | Fair value per unit (in dollars) |
|---------------------------------|------------|-----------------------------|--------------------------------|--|
| Treasury share to employee plan | 2023.03.09 | \$ 91.10 | \$ 77.71 | \$ 13.39 |

H. Expenses incurred on share-based payment transactions are shown below:

| | Three months ended March 31 | |
|---|-----------------------------|-----------|
| | 2024 | 2023 |
| Compensation cost of employee stock options | \$ 10,884 | \$ 25,669 |

(17) Provisions for liabilities - current

| | Warranty | Royalty | Total |
|--|------------|------------|------------|
| At January 1, 2024 | \$ 354,728 | \$ 330,241 | \$ 684,969 |
| Additional provisions | 103,608 | 67,391 | 170,999 |
| Utilisation/reversal during the period (| 73,779) | - | (73,779) |
| Effect of exchange rate changes | 765 | - | 765 |
| At March 31, 2024 | \$ 385,322 | \$ 397,632 | \$ 782,954 |

| | Warranty | Royalty | Total |
|--|------------|------------|------------|
| At January 1, 2023 | \$ 236,268 | \$ 267,026 | \$ 503,294 |
| Additional provisions | 82,321 | 28,641 | 110,962 |
| Utilisation/reversal during the period (| 52,091) | - | (52,091) |
| Effect of exchange rate changes | 72 | - | 72 |
| At March 31, 2023 | \$ 266,570 | \$ 295,667 | \$ 562,237 |

A. Warranty

A provision for repairs and maintenance obligation is recognised for expected warranty claims on products sold, based on historical claims data and management's judgement for future probable product repairs or replacement in next 12 months.

B. Royalty

The Group estimates the possible royalty expenses based on the industry characteristics, other known events and management's judgement and recognises such expenses within 'cost of goods sold' when related product is sold. Any changes in industry circumstances might affect materially the provision for royalty.

(18) Share capital

A. The Company's authorized capital was all \$5,000,000 as at March 31, 2024, December 31, 2023 and March 31, 2023, consisting of 500,000 thousand shares and the paid-in capital were \$2,959,253, \$2,685,781 and \$2,587,958, respectively, with par value of NT\$10 (in dollars). All proceeds from shares issued have been collected.

The number of ordinary shares at the beginning and the end of the period is reconciled as below:

| | <u>2024 (in thousand)</u> | <u>2023 (in thousand)</u> |
|------------------------------------|---------------------------|---------------------------|
| At January 1 | 267,078 | 256,196 |
| Exercise of employee stock options | - | 80 |
| Conversion of convertible bonds | 27,347 | - |
| Transfer of treasury shares | - | 1,100 |
| At March 31 | <u>294,425</u> | <u>257,376</u> |

B. Treasury stocks

(a) Reasons for the share repurchase and the number of the Company's treasury stocks are as follows:

| | | <u>March 31, 2024</u> | |
|---|--------------------------------|---------------------------------------|------------------------|
| <u>Name of company holding the shares</u> | <u>Reason for repurchase</u> | <u>Number of shares (in thousand)</u> | <u>Carrying amount</u> |
| The Company | To be transferred to employees | 1,500 | \$ 119,517 |

| | | <u>December 31, 2023</u> | |
|---|--------------------------------|---------------------------------------|------------------------|
| <u>Name of company holding the shares</u> | <u>Reason for repurchase</u> | <u>Number of shares (in thousand)</u> | <u>Carrying amount</u> |
| The Company | To be transferred to employees | 1,500 | \$ 119,517 |

| | | <u>March 31, 2023</u> | |
|---|--------------------------------|---------------------------------------|------------------------|
| <u>Name of company holding the shares</u> | <u>Reason for repurchase</u> | <u>Number of shares (in thousand)</u> | <u>Carrying amount</u> |
| The Company | To be transferred to employees | 1,500 | \$ 119,517 |

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares repurchased as treasury stocks should not exceed 10% of the number of the Company's issued and outstanding shares and the amount of shares repurchased should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should not be pledged as collateral nor is entitled to shareholders' rights before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should be transferred to the employees within five years from the repurchase date and shares not transferred within the five-year period are to be retired.

(19) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of ordinary shares and donations can be used to offset accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. However, capital surplus should not be used to offset accumulated deficit unless the legal reserve is insufficient.

| 2024 | | | | | | | | |
|--|---|---|-----------------------------------|------------------------------|----------------------------------|---|-----------------------------|---------------------|
| | Additional paid-in capital in excess of par, ordinary share | Conversion premium of convertible corporate bonds | Treasury stock transactions | Employee stock options | Employee restricted stocks | Expired stock options | Convertible bond options | Total |
| At January 1 | \$ 1,303,396 | \$ 2,673,761 | \$ 41,511 | \$ 130,159 | \$ - | \$ 25,934 | \$ 433,594 | \$ 4,608,355 |
| Compensation cost of employee stock options | - | - | - | 10,884 | - | - | - | 10,884 |
| Conversion of convertible bonds | - | 1,458,069 | - | - | - | - | (111,094) | 1,346,975 |
| At March 31 | <u>\$ 1,303,396</u> | <u>\$ 4,131,830</u> | <u>\$ 41,511</u> | <u>\$ 141,043</u> | <u>\$ -</u> | <u>\$ 25,934</u> | <u>\$ 322,500</u> | <u>\$ 5,966,214</u> |
| 2023 | | | | | | | | |
| | Additional paid-in capital in excess of par, ordinary share | Conversion premium of convertible corporate bonds | Treasury stock transactions | Employee stock options | Employee restricted stocks | Changes in ownership interests in subsidiaries | Convertible bond options | Total |
| At January 1 | \$ 884,932 | \$ 1,382,485 | \$ 28,949 | \$ 174,900 | \$ 25,934 | \$ - | \$ 209,400 | \$ 2,706,600 |
| Compensation cost of employee stock options | - | - | - | 25,669 | - | - | - | 25,669 |
| Employee stock options exercised | 3,815 | - | - | (2,375) | - | - | - | 1,440 |
| Treasury stock transferred | - | - | 12,562 | (14,729) | - | - | - | (2,167) |
| At March 31 | <u>\$ 888,747</u> | <u>\$ 1,382,485</u> | <u>\$ 41,511</u> | <u>\$ 183,465</u> | <u>\$ 25,934</u> | <u>\$ -</u> | <u>\$ 209,400</u> | <u>\$ 2,731,542</u> |

(20) Retained earnings

- A. Under the Company's Articles of Incorporation adopted by the shareholders during their meeting, the current year's earnings, if any, shall first be used to pay all taxes and offset accumulated deficit and then 10% of the remaining amount shall be set aside as legal reserve until the amount of legal reserve is equal to the amount of paid-in capital. After the provision or reversal of special reserve, the appropriation of the remaining earnings along with the unappropriated earnings of prior years and current adjustment on unappropriated earnings as distributable retained earnings. The distribution of all or part of dividends and bonuses shall be made by issuing new shares, which shall be approved by the shareholders. Distribution of earnings by way of cash dividends should be approved by Board of Directors and reported to shareholders in its meeting.
- B. The policy for dividend distribution should consider level of current year earnings and stabilised dividend ratio to support the Company's steady growth, and should reflect factors such as current and future investment environment, fund requirements, domestic and international competition and capital expenditure budgets, as well as the benefit of stockholders, dividend equilibrium, and long-term financial planning etc. It may be paid in cash or in the form of share dividends. Accordingly, at least 10% of the dividends must be paid in the form of cash.

- C. Except for offsetting accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Order No. Financial-Supervisory-Securities-Corporate-1090150022, dated March 31, 2021, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- (c) As of January 1, 2018, the amount of special reserve set aside for the first-time adoption of IFRSs amounted to \$131,678. Furthermore, the Company did not reverse special reserve to retained earnings during the three months ended March 31, 2024 and 2023 as a result of the use, disposal or reclassification of related assets. As of March 31, 2024 and 2023, the amount of special reserve set aside for the first-time adoption of IFRSs all amounted to \$131,678.
- E. (a) The appropriations of earnings of 2023 and 2022 as proposed and approved by the Board of Directors on March 5, 2024, and resolved by shareholders on June 13, 2023, respectively, are as follows:

| | <u>Year ended December 31, 2023</u> | | <u>Year ended December 31, 2022</u> | |
|--|-------------------------------------|---|-------------------------------------|---|
| | <u>Amount</u> | <u>Dividends per share (in dollars)</u> | <u>Amount</u> | <u>Dividends per share (in dollars)</u> |
| Legal reserve appropriated | \$ 241,381 | | \$ 186,289 | |
| (Reversal of) special reserve appropriated | 36,538 | | (16,182) | |
| Cash dividends | 1,472,126 | \$ 5.00 | 1,158,191 | \$ 4.50 |

For the appropriations of 2023 and 2022 earnings proposed by the Company's Board of Directors, aside from the cash dividends which had been resolved by the Board of Directors on March 5, 2024 and March 9, 2023, respectively, and shown as 'other payables', the remaining was yet to be resolved by the shareholders. Information about the appropriations of retained earnings of the Company as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(21) Other equity items

| | 2024 | | | |
|--|--|--|-------------------------|--------------|
| | Financial statements translation differences of foreign operations | Unrealised gains (losses) on financial assets at fair value through other comprehensive income | Cash flow hedge reserve | Total |
| At January 1 | (\$ 629,468) | (\$ 32,210) | (\$ 28,201) | (\$ 689,879) |
| Currency translation differences: | | | | |
| –Group | 200,947 | - | - | 200,947 |
| Revaluation – gross | - | 374 | - | 374 |
| Gains (losses) on hedging instruments: | | | | |
| -Gains (losses) on fair value | - | - | 56,816 | 56,816 |
| -Tax on fair value gains (losses) | - | - | (11,364) | (11,364) |
| -Transfers to sales of goods | - | - | (2,293) | (2,293) |
| -Tax on transfers to sales of goods | - | - | 459 | 459 |
| -Transfers to inventories | - | - | (3,573) | (3,573) |
| -Tax on transfers to inventories | - | - | 715 | 715 |
| -Ineffective hedging transfer to profit or loss | - | - | 5,088 | 5,088 |
| -Tax on ineffective hedging transfer to profit or loss | - | - | (1,019) | (1,019) |
| At March 31 | (\$ 428,521) | (\$ 31,836) | \$ 16,628 | (\$ 443,729) |

| | 2023 | | | |
|--|--|--|-------------------------|--------------|
| | Financial statements translation differences of foreign operations | Unrealised gains (losses) on financial assets at fair value through other comprehensive income | Cash flow hedge reserve | Total |
| At January 1 | (\$ 531,189) | (\$ 17,537) | (\$ 104,611) | (\$ 653,337) |
| Currency translation differences: | | | | |
| –Group | 17,538 | - | - | 17,538 |
| Revaluation – gross | - | 17,829 | - | 17,829 |
| Gains (losses) on hedging instruments: | | | | |
| -Gains (losses) on fair value | - | - | (58,427) | (58,427) |
| -Tax on fair value gains (losses) | - | - | 11,686 | 11,686 |
| -Transfers to sales of goods | - | - | 26,520 | 26,520 |
| -Tax on transfers to sales of goods | - | - | (5,304) | (5,304) |
| -Transfers to inventories | - | - | 71,740 | 71,740 |
| -Tax on transfers to inventories | - | - | (14,348) | (14,348) |
| -Ineffective hedging transfer to profit or loss | - | - | 6,082 | 6,082 |
| -Tax on ineffective hedging transfer to profit or loss | - | - | (1,217) | (1,217) |
| At March 31 | (\$ 513,651) | \$ 292 | (\$ 67,879) | (\$ 581,238) |

(22) Operating revenue

A. Disaggregation of revenue from contracts with customers

Sales revenue is recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group derives revenue from the transfer of goods at a point in time in the following major product lines:

| | Three months ended March 31 | |
|--|-----------------------------|----------------------|
| | 2024 | 2023 |
| Fixed mobile convergence products (BB CPE) | \$ 12,165,375 | \$ 9,891,769 |
| Enterprise (ENT) | 2,245,818 | 3,961,778 |
| IoT Solutions (Infra. & IoT) | 1,435,960 | 1,585,028 |
| Others | 346,323 | 220,559 |
| | <u>\$ 16,193,476</u> | <u>\$ 15,659,134</u> |

B. Contract liabilities

Contract liabilities recognised by the Group as a result of revenue from contracts with customers are as follows:

| | March 31, 2024 | December 31, 2023 | March 31, 2023 | January 1, 2023 |
|----------------|-------------------|-------------------|-------------------|-------------------|
| Sales contract | <u>\$ 949,782</u> | <u>\$ 751,271</u> | <u>\$ 494,885</u> | <u>\$ 681,606</u> |

(a) Significant changes in contract liabilities

For the three months ended March 31, 2024 and 2023, the change in the Group's contract liabilities were due to the customer's operation changes with industrial needs, the timing difference between the prepayments made according to the contract and the Group's performance obligations satisfied.

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period

| | Three months ended March 31 | |
|----------------|-----------------------------|-------------------|
| | 2024 | 2023 |
| Sales contract | <u>\$ 348,971</u> | <u>\$ 425,230</u> |

C. Refund liabilities

Sales revenue is recognised based on contract price net of sales discounts and allowances. The merchandise is often sold with sales discounts and allowances based on aggregate sales over a 12-month period. Historical experience is used to estimate and provide for the sales discounts and allowances, using the most possible amount, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date.

A refund liability is recognised for expected sales discounts and allowances payable to customers in relation to sales made until the end of the reporting period. The payment terms for sales are normally 30 to 210 days after delivery. The time between the transfer of promised goods or services to the client and collection of payment does not exceed one year. The Group does not adjust the transaction price to reflect the time value of money.

| | March 31, 2024 | December 31, 2023 | March 31, 2023 |
|--------------------|-------------------|-------------------|-------------------|
| Refund liabilities | <u>\$ 396,938</u> | <u>\$ 369,661</u> | <u>\$ 386,528</u> |

(23) Other income

| | Three months ended March 31 | |
|-------------------|-----------------------------|-----------------|
| | 2024 | 2023 |
| Rental income | \$ 775 | \$ 612 |
| Government grants | 512 | 1,220 |
| Others | 338 | 1,958 |
| | <u>\$ 1,625</u> | <u>\$ 3,790</u> |

(24) Other gains and losses

| | Three months ended March 31 | |
|---|-----------------------------|--------------------|
| | 2024 | 2023 |
| Net losses on financial assets/liabilities at fair value through profit or loss | (\$ 106,057) | (\$ 6,017) |
| Net currency exchange gains (losses) | 95,220 | (5,011) |
| Gains (losses) on disposals of property , plant and equipment | 5,799 | (409) |
| Gains from lease modification | 282 | - |
| Others | (772) | (440) |
| | <u>(\$ 5,528)</u> | <u>(\$ 11,877)</u> |

(25) Finance costs

| | Three months ended March 31 | |
|------------------|-----------------------------|------------------|
| | 2024 | 2023 |
| Interest expense | | |
| -Bank borrowing | \$ 45,179 | \$ 43,802 |
| -Bonds payable | 23,954 | 19,001 |
| -Lease contracts | 1,406 | 1,448 |
| -Others | - | 28 |
| | <u>\$ 70,539</u> | <u>\$ 64,279</u> |

(26) Additional information of expenses by nature

| | Three months ended March 31 | |
|---|-----------------------------|---------------------|
| | 2024 | 2023 |
| Employee benefit expense | \$ 1,461,320 | \$ 1,343,573 |
| Depreciation charges on property, plant and equipment | 165,348 | 144,643 |
| Amortisation charges on intangible assets | 38,722 | 48,644 |
| Depreciation charges on right-of-use assets | 31,360 | 31,757 |
| | <u>\$ 1,696,750</u> | <u>\$ 1,568,617</u> |

(27) Employee benefit expense

| | Three months ended March 31 | |
|---|-----------------------------|---------------------|
| | 2024 | 2023 |
| Wages and salaries | \$ 1,226,147 | \$ 1,112,426 |
| Pension costs | 91,124 | 79,196 |
| Labor and health insurance fees | 57,659 | 52,658 |
| Directors' remuneration | 12,837 | 13,304 |
| Compensation cost of employee stock options | 10,884 | 25,669 |
| Other personnel expenses | 62,669 | 60,320 |
| | <u>\$ 1,461,320</u> | <u>\$ 1,343,573</u> |

A. According to the Articles of Incorporation, 12%-18% of profit of the current year is distributable as employees' compensation and no higher than 2.5% of profit of the current year is distributable as remuneration to directors. Qualification requirements of employees include the employees of subsidiaries or controlled entities of the Company meeting certain specific requirements. If the Company has an accumulated deficit, earnings should be reserved to offset deficit first. Independent directors do not participate in the abovementioned distribution of directors' remuneration.

B. For the three months ended March 31, 2024 and 2023, employees' compensation was accrued at \$165,100 and \$113,043, respectively; directors' remuneration was accrued at \$9,900 and \$10,957, respectively. The aforementioned amounts were recognised in salary expenses.

For the three months ended March 31, 2024, the employees' compensation and directors' remuneration were estimated and accrued based on 16.23% and 0.97% of distributable profit of current year as of the end of reporting period.

Employees' compensation and directors' remuneration for 2023 amounting to \$545,400 and \$39,600, respectively as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2023 financial statements. The employees' compensation and directors' remuneration will be distributed in the form of cash.

Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(28) Income tax

A. Income tax expense

(a) Components of income tax expense:

| | Three months ended March 31 | |
|---|-----------------------------|-------------------|
| | 2024 | 2023 |
| Current tax: | | |
| Current tax on profits for the period | \$ 160,953 | \$ 114,537 |
| Prior year income tax overestimation | (12,767) | - |
| Total current tax | 148,186 | 114,537 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 8,905 | (10,090) |
| Income tax expense | <u>\$ 157,091</u> | <u>\$ 104,447</u> |

- (b) Income tax (credit) charge relating to components of other comprehensive income is as follows:

| | Three months ended March 31 | |
|--|-----------------------------|------------|
| | 2024 | 2023 |
| Profit or loss of hedging instruments in cash flow hedge | \$ 11,209 | (\$ 9,183) |

B. Assessment and approval of income tax returns by the Tax Authority:

| | Latest year assessment by Tax Authority |
|--------------------------|---|
| The Company | 2020 |
| Sercomm Investment Corp. | 2021 |

C. The Group's exposure to Pillar Two income taxes arising from the Pillar Two legislation is as follows:

- The Group is within the scope of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD). However, no Pillar Two legislation was enacted in the place where the Group was incorporated as of March 31, 2024.
- Under the Pillar Two legislation, the Group is liable to pay a top up tax for the difference between its GloBE effective tax rate per jurisdiction and the 15% minimum rate.
- For the three months ended March 31, 2024, due to the application for tax incentives, the average effective tax rate calculated in accordance with IAS 12 of subsidiaries operating in jurisdiction the Philippine was 0.2%, income tax expense was \$167, and accounting profit was \$93,514, respectively. However, due to the complexities in applying the legislation and calculating GloBE income, the average effective tax rates of the subsidiaries in the above jurisdictions were affected by specific adjustments envisaged in the Pillar Two legislation after the Philippines enacted the legislation, which give rise to different effective tax rates compared to those calculated in accordance with IAS 12, the quantitative impact of the enacted or substantively enacted legislation is not yet reasonably estimable. The Group will continue to track the related matters applicable to the Pillar Two legislation and assess its impact.

(29) Earnings per share

| Three months ended March 31, 2024 | | | |
|--|-------------------|--|---------------------------------------|
| | Amount after tax | Weighted average number of ordinary shares outstanding (share in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to owners of the parent | \$ 674,202 | 286,665 | \$ <u>2.35</u> |
| <u>Diluted earnings per share</u> | | | |
| Dilutive effect of potential ordinary shares | | | |
| Employee stock options | - | 3,468 | |
| Conversion of convertible bonds | - | 1,818 | |
| Employees' compensation | - | 3,930 | |
| Treasury stocks | - | 633 | |
| Profit attributable to owners of the parent plus dilutive effect of potential ordinary shares | <u>\$ 674,202</u> | <u>296,514</u> | <u>\$ 2.27</u> |
| Three months ended March 31, 2023 | | | |
| | Amount after tax | Weighted average number of ordinary shares outstanding (share in thousands) | Earnings per share (in dollars) |
| <u>Basic earnings per share</u> | | | |
| Profit attributable to owners of the parent | \$ 505,824 | 256,589 | \$ <u>1.97</u> |
| <u>Diluted earnings per share</u> | | | |
| Dilutive effect of potential ordinary shares | | | |
| Employee stock options | - | 3,546 | |
| Employees' compensation | - | 4,684 | |
| Treasury stocks | - | 173 | |
| Profit attributable to owners of the parent plus dilutive effect of potential ordinary shares | <u>\$ 505,824</u> | <u>264,992</u> | <u>\$ 1.91</u> |

- A. The convertible bonds issued by the Company in 2023 have an anti-dilution effect, so they are not listed on diluted earnings per share for the three months ended March 31, 2024.
- B. The convertible bonds issued by the Company in 2022 have an anti-dilution effect, so they are not listed on diluted earnings per share for the three months ended March 31, 2023.
- C. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date the financial statements were authorized for issuance.

(30) Supplemental cash flow information

A. Investing activities with partial cash payments:

| | Three months ended March 31 | |
|---|-----------------------------|-------------------|
| | 2024 | 2023 |
| Purchase of property, plant and equipment | \$ 274,180 | \$ 282,260 |
| Add: Ending balance of advance payment | 97,797 | 111,608 |
| Less: Opening balance of advance payment | (104,618) | (105,883) |
| Add: Opening balance of payable for equipment or other payables | 150,838 | 66,328 |
| Less: Ending balance of payable for equipment or other payables | (98,239) | (124,451) |
| Cash paid during the period | <u>\$ 319,958</u> | <u>\$ 229,862</u> |
| Purchase of intangible assets | \$ 26,673 | \$ 68,576 |
| Add: Ending balance of advance payment | 41,743 | 43,505 |
| Less: Opening balance of advance payment | (44,475) | (34,269) |
| Add: Opening balance of payable for equipment or other payables | 2,472 | 2,409 |
| Less: Ending balance of payable for equipment or other payables | (7,642) | (924) |
| Cash paid during the period | <u>\$ 18,771</u> | <u>\$ 79,297</u> |

B. Financing activities with no cash flow effects:

| | Three months ended March 31 | |
|--|-----------------------------|---------------------|
| | 2024 | 2023 |
| Cash dividends declared but yet to be appropriated | <u>\$ 1,472,126</u> | <u>\$ 1,158,191</u> |

(31) Changes in liabilities from financing activities

| | 2024 | | | | | | |
|--|-----------------------|----------------------|--------------------------------------|-------------------|---------------------|---------------------|---|
| | Short-term borrowings | Long-term borrowings | Guarantee deposits received (Note 2) | Lease liabilities | Dividends payable | Bonds payable | Liabilities from financing activities-gross |
| At January 1 | \$ 429,925 | \$ - | \$ 1,026,985 | \$ 207,654 | \$ - | \$ 7,969,790 | \$ 9,634,354 |
| Changes in cash flow from financing activities | 821,369 | - | (3,025) | (19,714) | - | - | 798,630 |
| Interest paid (Note 1) | - | - | - | (1,406) | - | - | (1,406) |
| Impact of changes in foreign exchange rate | - | - | 38,288 | 897 | - | - | 39,185 |
| Changes in other non-cash items | - | - | - | (1,637) | 1,472,126 | (1,508,146) | (37,657) |
| At March 31 | <u>\$ 1,251,294</u> | <u>\$ -</u> | <u>\$ 1,062,248</u> | <u>\$ 185,794</u> | <u>\$ 1,472,126</u> | <u>\$ 6,461,644</u> | <u>\$ 10,433,106</u> |

| | 2023 | | | | | | |
|--|-----------------------|----------------------|-----------------------------|-------------------|---------------------|---------------------|---|
| | Short-term borrowings | Long-term borrowings | Guarantee deposits received | Lease liabilities | Dividends payable | Bonds payable | Liabilities from financing activities-gross |
| At January 1 | \$ 1,639,995 | \$ 687,120 | \$ 34,100 | \$ 262,338 | \$ - | \$ 6,524,008 | \$ 9,147,561 |
| Changes in cash flow from financing activities | (1,394,165) | (24,120) | 3,222 | (22,495) | - | - | (1,437,558) |
| Interest paid (Note 1) | - | - | - | (1,448) | - | - | (1,448) |
| Impact of changes in foreign exchange rate | - | - | 111 | (754) | - | - | (643) |
| Changes in other non-cash items | - | - | - | 9,487 | 1,158,191 | 9,763 | 1,177,441 |
| At March 31 | <u>\$ 245,830</u> | <u>\$ 663,000</u> | <u>\$ 37,433</u> | <u>\$ 247,128</u> | <u>\$ 1,158,191</u> | <u>\$ 6,533,771</u> | <u>\$ 8,885,353</u> |

Note 1: Shown in ‘Cash flows from operating activities’.

Note 2: Including guarantee deposits received with maturity within one year, and shown in ‘Other current liabilities, others’.

7. RELATED PARTY TRANSACTIONS

Key management compensation

| | Three months ended March 31 | |
|------------------------------|-----------------------------|------------------|
| | 2024 | 2023 |
| Short-term employee benefits | \$ 53,386 | \$ 63,564 |
| Post-employment benefits | 411 | 399 |
| Share-based payments | 3,265 | 7,700 |
| | <u>\$ 57,062</u> | <u>\$ 71,663</u> |

8. PLEDGED ASSETS

The Group’s assets pledged at book value are as follows:

| Pledged asset | March 31, 2024 | December 31, 2023 | March 31, 2023 | Purpose |
|---|-------------------|-------------------|---------------------|---|
| Property, plant and equipment | \$ - | \$ - | \$ 1,966,712 | Long-term bank secured borrowings |
| Financial assets measured at amortised cost | 114,325 | 105,855 | 111,536 | Bank acceptance bill guarantee, custom duty guarantee and performance guarantee |
| Guarantee deposits paid | - | 35 | 11,973 | Custom duty guarantee and performance guarantee |
| | <u>\$ 114,325</u> | <u>\$ 105,890</u> | <u>\$ 2,090,221</u> | |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

A. The Company has entered into an agreement with an overseas customer. The agreement provided that the overseas customer was required to pay a fee toward specified items prescribed in the agreement and the Company shall be liable for any third party infringement claims. The amount received has been deposited in a trust fund set up by the Company. The Company recognised the trust fund as other non-current financial assets and other current liabilities.

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|------------------------------|-----------------------|--------------------------|-----------------------|
| Non-current financial assets | | | |
| measured at amortised cost | \$ 73,086 | \$ 72,822 | \$ 72,106 |
| Other current liabilities | 57,811 | 57,811 | 57,811 |

As of March 31, 2024, December 31, 2023 and March 31, 2023, the accumulated interest of the trust fund assets was recognised as ‘non-current financial assets measured at amortised cost’ in the amounts of \$15,275, \$15,011 and \$14,295, respectively.

- B. To stabilise the supply of raw materials, the Group and a supplier signed a long-term supply contract whereby the Group shall pay performance guarantee of USD 3,708 thousand (shown as guarantee deposits paid \$103,252). If the Group achieves the agreed purchase amount every year, the guarantee can be recovered year by year in proportion to the number of years achieved.
- C. As of March 31, 2024, the amount of contracted but not yet paid commitments for the purchase of equipment, computer software and construction in progress was \$377,843.
- D. The amounts of performance letters of guarantee issued by banks for shipment guarantee are as follows:

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|--------------------|-----------------------|--------------------------|-----------------------|
| USD (in thousands) | \$ 6,979 | \$ 11,336 | \$ 10,920 |
| RMB (in thousands) | 3,500 | 3,500 | 2,000 |
| EUR (in thousands) | 800 | 800 | 800 |

- E. The amounts of promissory notes issued by banks for factoring accounts receivable and bank borrowing are as follows:

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|--------------------|-----------------------|--------------------------|-----------------------|
| NTD | \$ 5,120,000 | \$ 5,120,000 | \$ 4,450,000 |
| USD (in thousands) | 337,013 | 307,013 | 281,413 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

(2) Financial instruments

A. Financial instruments by category

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|---|-----------------------|--------------------------|-----------------------|
| <u>Financial assets</u> | | | |
| Financial assets at fair value through profit or loss | | | |
| Financial assets at fair value through profit or loss | <u>\$ 1,808,187</u> | <u>\$ 1,195,206</u> | <u>\$ 2,181</u> |
| Financial assets at fair value through other comprehensive income | | | |
| Designation of equity instrument | <u>\$ 25,094</u> | <u>\$ 24,720</u> | <u>\$ 182,217</u> |
| Financial assets at amortised cost | | | |
| Cash and cash equivalents | \$ 10,577,004 | \$ 8,830,912 | \$ 7,906,935 |
| Financial assets measured at amortised cost | 187,411 | 178,677 | 183,642 |
| Notes receivable, net | 69,285 | 78,138 | 174,793 |
| Accounts receivable, net | 13,000,650 | 11,502,602 | 8,106,526 |
| Other receivables | 527,746 | 445,590 | 645,872 |
| Guarantee deposits paid | <u>172,823</u> | <u>163,010</u> | <u>176,705</u> |
| | <u>\$ 24,534,919</u> | <u>\$ 21,198,929</u> | <u>\$ 17,194,473</u> |
| Financial assets for hedging | <u>\$ 21,299</u> | <u>\$ 998</u> | <u>\$ 25</u> |
| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
| <u>Financial liabilities</u> | | | |
| Financial liabilities at fair value through profit or loss | | | |
| Financial liabilities held for trading | \$ 40,119 | \$ 1,097 | \$ 6,634 |
| Embedded derivatives | <u>13,200</u> | <u>17,400</u> | <u>9,600</u> |
| | <u>\$ 53,319</u> | <u>\$ 18,497</u> | <u>\$ 16,234</u> |
| Financial liabilities at amortised cost | | | |
| Short-term borrowings | \$ 1,251,294 | \$ 429,925 | \$ 245,830 |
| Notes payable | 669,172 | 636,314 | 1,013,607 |
| Accounts payable | 15,393,701 | 16,372,388 | 16,596,731 |
| Other payables | 5,967,202 | 4,843,532 | 4,619,304 |
| Bonds payable (including current portion) | 6,461,644 | 7,969,790 | 6,533,771 |
| Long-term borrowings | - | - | 663,000 |
| Guarantee deposits received (including current portion) | <u>1,062,248</u> | <u>1,026,985</u> | <u>37,433</u> |
| | <u>\$ 30,805,261</u> | <u>\$ 31,278,934</u> | <u>\$ 29,709,676</u> |
| Lease liability (including current portion) | <u>\$ 185,794</u> | <u>\$ 207,654</u> | <u>\$ 247,128</u> |
| Financial liabilities for hedging | <u>\$ 512</u> | <u>\$ 36,247</u> | <u>\$ 84,872</u> |

B. Financial risk management policies

- (a) The Group's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks based on the Group's policy and risk appetite.
- (b) The Group has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Group complies with its financial risk management policies at all times.
- (c) To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments. Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Notes 6(2) and (4).

C. Significant financial risks and degrees of financial risks

(a) Market risk

Exchange rate risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and EUR. Exchange rate risk arises from future commercial transactions and recognized assets and liabilities.
- ii. The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received. The Group also uses forward contracts to hedge the foreign currency risk on certain items denominated in foreign currencies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria.
- iii. The Group's risk management policy is to hedge anticipated cash flows from sales in EUR and GBP, and purchase in USD.
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, EUR and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

| March 31, 2024 | | | |
|--|--|---------------|---------------------|
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 489,675 | 31.99 | \$ 15,664,703 |
| USD:PHP | 139,928 | 56.28 | 4,476,297 |
| USD:RMB | 128,029 | 7.22 | 4,095,648 |
| USD:JYP | 31,054 | 151.32 | 993,417 |
| EUR:NTD | 16,394 | 34.45 | 564,773 |
| GBP:NTD | 2,912 | 40.37 | 117,557 |
| <u>Non-monetary items</u> | | | |
| USD:NTD | \$ 7,502 | 31.99 | \$ 240,000 |
| <u>Investments accounted for using the equity method</u> | | | |
| EUR:NTD | \$ 386 | 34.45 | 13,292 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 363,368 | 31.99 | \$ 11,624,142 |
| USD:PHP | 230,303 | 56.28 | 7,367,393 |
| USD:RMB | 200,079 | 7.22 | 6,400,527 |
| USD:INR | 142,597 | 83.35 | 4,561,678 |
| USD:JYP | 32,481 | 151.32 | 1,039,067 |

| December 31, 2023 | | | |
|--|--|---------------|---------------------|
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 447,726 | 30.74 | \$ 13,763,097 |
| USD:PHP | 168,088 | 55.57 | 5,167,025 |
| USD:RMB | 125,469 | 7.09 | 3,856,917 |
| EUR:NTD | 17,845 | 34.01 | 606,908 |
| USD:JYP | 17,624 | 141.44 | 541,762 |
| <u>Non-monetary items</u> | | | |
| USD:NTD | \$ 7,807 | 30.74 | \$ 240,000 |
| <u>Investments accounted for using the equity method</u> | | | |
| EUR:NTD | \$ 215 | 34.01 | 7,305 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 385,465 | 30.74 | \$ 11,849,194 |
| USD:PHP | 271,060 | 55.57 | 8,332,384 |
| USD:RMB | 223,260 | 7.09 | 6,863,012 |
| USD:INR | 62,629 | 83.18 | 1,925,215 |
| USD:JYP | 18,755 | 141.44 | 576,529 |

| March 31, 2023 | | | |
|--|--|---------------|---------------------|
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 300,029 | 30.45 | \$ 9,135,883 |
| USD:RMB | 208,540 | 6.87 | 6,350,043 |
| USD:PHP | 137,603 | 54.37 | 4,190,011 |
| EUR:NTD | 22,928 | 33.15 | 760,063 |
| JPY:NTD | 835,511 | 0.23 | 192,168 |
| GBP:NTD | 3,947 | 37.06 | 146,276 |
| <u>Non-monetary items</u> | | | |
| USD:NTD | \$ 16,893 | 30.45 | \$ 514,400 |
| <u>Investments accounted for using the equity method</u> | | | |
| EUR:NTD | \$ 273 | 33.15 | \$ 9,061 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD:NTD | \$ 310,384 | 30.45 | \$ 9,451,193 |
| USD:PHP | 262,941 | 54.37 | 8,006,553 |
| USD:RMB | 282,166 | 6.87 | 8,591,955 |
| USD:INR | 40,287 | 82.15 | 1,226,739 |
| EUR:NTD | 25,000 | 33.15 | 828,750 |

- v. It is not applicable to disclose the exchange gains or losses for each functional currency because the functional currencies used by the Group's entities are diverse.
- vi. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2024 and 2023 amounted to \$95,220 and (\$5,011), respectively.

vii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

| Three months ended March 31, 2024 | | | | |
|-----------------------------------|---------------------|----|--------------------------|--------------------------------------|
| Sensitivity analysis | | | | |
| | Degree of variation | | Effect on profit or loss | Effect on other comprehensive income |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ | 156,647 | \$ - |
| USD:PHP | 1% | | 44,763 | - |
| USD:RMB | 1% | | 40,956 | - |
| USD:JYP | 1% | | 9,934 | - |
| EUR:NTD | 1% | | 5,648 | - |
| GBP:NTD | 1% | | 1,176 | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ | 116,241 | \$ - |
| USD:PHP | 1% | | 73,674 | - |
| USD:RMB | 1% | | 64,005 | - |
| USD:INR | 1% | | 45,617 | - |
| USD:JYP | 1% | | 10,391 | - |
| | | | | |
| Three months ended March 31, 2023 | | | | |
| Sensitivity analysis | | | | |
| | Degree of variation | | Effect on profit or loss | Effect on other comprehensive income |
| <u>Financial assets</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ | 91,359 | \$ - |
| USD:RMB | 1% | | 63,500 | - |
| USD:PHP | 1% | | 41,900 | - |
| EUR:NTD | 1% | | 7,601 | - |
| JPY:NTD | 1% | | 1,922 | - |
| GBP:NTD | 1% | | 1,463 | - |
| <u>Financial liabilities</u> | | | | |
| <u>Monetary items</u> | | | | |
| USD:NTD | 1% | \$ | 94,512 | \$ - |
| USD:PHP | 1% | | 80,066 | - |
| USD:RMB | 1% | | 85,920 | - |
| USD:INR | 1% | | 12,267 | - |
| EUR:NTD | 1% | | 8,288 | - |

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.
- ii. The Group's investments in equity and debt securities comprise shares issued by the domestic and foreign companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity and debt securities had increased/decreased by 1% with all other variables held constant, post-tax profit for the three months ended March 31, 2024 and 2023 would have increased/decreased by \$18,059 and \$0, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other comprehensive income would have increased/decreased by \$251 and \$1,822, respectively.

Cash flow and fair value interest rate risk

- i. The Group's main interest rate risk arises from short-term and long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk. Except for the Group's borrowings denominated in New Taiwan dollars were at variable rate as of March 31, 2024 and 2023, others were all at fixed rate.
 - ii. The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.
 - iii. If the borrowing interest rate had increased/decreased by 1% with all other variables held constant, profit, net of tax, for the three months ended March 31, 2024 and 2023 would have increased/decreased by \$1,613 and \$1,818, respectively. The main factor is that changes in interest expense result in floating-rate borrowings.
- (b) Credit risk
- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at fair value through profit or loss and financial assets at amortised cost.
 - ii. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Group's internal rating criteria etc. Certain customers' credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

- iii. Credit risk from balances with banks and other financial instruments is managed by the Group's treasury in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions with high credit rating.
- iv. The Group assesses whether there is any evidence that the credit risk of financial instruments has been significantly increased after initial recognition based on the historical experience. If the contract payments were past due over 90 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition. The default occurs when the contract payments are past due over 270 days.
- v. The following indicators are used to determine whether the credit impairment of financial assets has occurred:
- It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - Default.
- vi. The Group classifies customers' accounts receivable in accordance with customer types. The Group applies the simplified approach using provision matrix or loss rate methodology to estimate expected credit loss.
- vii. The Group used the forecast ability of Taiwan Institute of Economic Research report to adjust historical and timely information to assess the default possibility of notes and accounts receivable. As of March 31, 2024, December 31, 2023 and March 31, 2023, the provision matrix are as follows:

| March 31, 2024 | Without past due | Up to 1-90 days | Up to 91 to 180 days | Up to 181 to 270 days | Over 271 days | Total |
|--------------------|------------------|--------------------|-------------------------|--------------------------|---------------|--------------|
| <u>Group 1</u> | | | | | | |
| Expected loss rate | 0.40% | 6.93% | 18.89% | 71.45% | 100% | |
| Total book value | \$ 10,456,762 | \$ 265,301 | \$ 216,654 | \$ 113,098 | \$ 13,326 | \$11,065,141 |
| Loss allowance | \$ 42,457 | \$ 18,376 | \$ 40,924 | \$ 80,804 | \$ 13,326 | \$ 195,687 |
| <u>Group 2</u> | | | | | | |
| Expected loss rate | 0.55% | 12.25% | 19.59% | - | 100% | |
| Total book value | \$ 1,867,114 | \$ 130,106 | \$ 70,650 | \$ - | \$ 142 | \$ 2,068,012 |
| Loss allowance | \$ 10,220 | \$ 15,933 | \$ 13,843 | \$ - | \$ 142 | \$ 40,138 |
| Total book value | \$ 12,323,876 | \$ 395,407 | \$ 287,304 | \$ 113,098 | \$ 13,468 | \$13,133,153 |
| Loss allowance | \$ 52,477 | \$ 34,309 | \$ 54,767 | \$ 80,804 | \$ 13,468 | \$ 235,825 |

| | | Up to | Up to | Up to | | |
|--------------------|------------------|------------|----------------|-----------------|---------------|---------------|
| | Without past due | 1-90 days | 91 to 180 days | 181 to 270 days | Over 271 days | Total |
| December 31, 2023 | | | | | | |
| Group 1 | | | | | | |
| Expected loss rate | 0.67% | 9.02% | 38.76% | 74.39% | 100% | |
| Total book value | \$ 8,671,977 | \$ 876,682 | \$ 269,190 | \$ 12,428 | \$ 8,505 | \$ 9,388,782 |
| Loss allowance | \$ 58,445 | \$ 79,117 | \$ 104,345 | \$ 9,245 | \$ 8,505 | \$ 259,657 |
| Group 2 | | | | | | |
| Expected loss rate | 1.02% | 2.63% | - | 28.57% | 100% | |
| Total book value | \$ 1,792,130 | \$ 6,209 | \$ - | \$ 63 | \$ 1,154 | \$ 1,799,556 |
| Loss allowance | \$ 18,360 | \$ 163 | \$ - | \$ 18 | \$ 1,154 | \$ 19,695 |
| Total book value | \$ 10,464,107 | \$ 882,891 | \$ 269,190 | \$ 12,491 | \$ 9,659 | \$ 11,638,338 |
| Loss allowance | \$ 76,805 | \$ 79,280 | \$ 104,345 | \$ 9,263 | \$ 9,659 | \$ 279,352 |
| March 31, 2023 | | | | | | |
| Group 1 | | | | | | |
| Expected loss rate | 0.88% | 7.61% | 19.75% | 52.58% | 100% | |
| Total book value | \$ 7,210,504 | \$ 278,988 | \$ 42,341 | \$ 5,641 | \$ 1,035 | \$ 7,538,509 |
| Loss allowance | \$ 63,280 | \$ 21,234 | \$ 8,361 | \$ 2,966 | \$ 1,035 | \$ 96,876 |
| Group 2 | | | | | | |
| Expected loss rate | 0.92% | 7.52% | - | 53.34% | - | |
| Total book value | \$ 758,523 | \$ 11,904 | \$ - | \$ 1,813 | \$ - | \$ 722,240 |
| Loss allowance | \$ 6,974 | \$ 895 | \$ - | \$ 967 | \$ - | \$ 8,836 |
| Total book value | \$ 7,969,027 | \$ 290,892 | \$ 42,341 | \$ 7,454 | \$ 1,035 | \$ 8,310,749 |
| Loss allowance | \$ 70,254 | \$ 22,129 | \$ 8,361 | \$ 3,933 | \$ 1,035 | \$ 105,712 |

Note: Customer types that are classified based on the Group's credit risk management policy are as follows:

Group 1: The credit risk of customers has been insured by professional insurance companies.

Group 2: The credit risk of customers has not been insured by professional insurance companies.

Considering that the accounts receivable are insured, the Group did not recognise the impairment loss amounting to \$172,607, \$221,754 and \$76,282 as of March 31, 2024, December 31, 2023 and March 31, 2023, respectively.

- viii. As of March 31, 2024, the Group's accounts receivable due from individual customers that were past due over 271 days amounted to \$8,852. Considering the possibility of collection for individual customers, the Group had provided loss allowance for the above overdue accounts receivable amounting to \$8,852.
- ix. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

| | 2024 | | 2023 | |
|---------------------------------|------------------|-----------------|------------------|-------------|
| | Group | Individual | Group | Individual |
| | assessment | assessment | assessment | assessment |
| At January 1 | \$ 57,598 | \$ - | \$ 19,897 | \$ - |
| Expected credit impairment loss | 5,258 | 8,852 | 9,500 | - |
| Effect of exchange rate changes | 362 | - | 33 | - |
| At March 31 | <u>\$ 63,218</u> | <u>\$ 8,852</u> | <u>\$ 29,430</u> | <u>\$ -</u> |

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.
- ii. The Group invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.
- iii. The Group has the following undrawn borrowing facilities:

| | <u>March 31, 2024</u> | <u>December 31, 2023</u> | <u>March 31, 2023</u> |
|--------------------------|-----------------------|--------------------------|-----------------------|
| Floating rate: | | | |
| Expiring within one year | \$ 12,686,010 | \$ 13,941,343 | \$ 13,261,960 |
| Expiring beyond one year | - | - | 1,037,000 |
| | <u>\$ 12,686,010</u> | <u>\$ 13,941,343</u> | <u>\$ 14,298,960</u> |

- iv. The Group's non-derivative financial liabilities were analysed based on the remaining period at the balance sheet date to the contractual maturity date, derivative financial liabilities were analysed based on the fair value on balance sheet date.
Except that the contractual undiscounted cash flows of notes payable, accounts payable, other payables and forward foreign exchange contracts are approximately equal to its book value and mature within one year, the contractual undiscounted cash flows of remaining financial liabilities are disclosed in the following table:

| March 31, 2024 | | Between | Between | |
|---|----------------------|----------------------|----------------------|---------------------|
| | <u>Within 1 year</u> | <u>1 and 2 years</u> | <u>2 and 5 years</u> | <u>Over 5 years</u> |
| <u>Non-derivative financial liabilities</u> | | | | |
| Short-term borrowings | \$ 1,268,749 | \$ - | \$ - | \$ - |
| Lease liabilities | 65,195 | 45,767 | 81,877 | - |
| Bonds payable | 2,321,392 | 1,404,066 | 3,000,000 | - |
| December 31, 2023 | | Between | Between | |
| | <u>Within 1 year</u> | <u>1 and 2 years</u> | <u>2 and 5 years</u> | <u>Over 5 years</u> |
| <u>Non-derivative financial liabilities</u> | | | | |
| Short-term borrowings | \$ 434,213 | \$ - | \$ - | \$ - |
| Lease liabilities | 71,356 | 52,521 | 93,224 | - |
| Bonds payable | 2,327,369 | 1,407,556 | 4,591,600 | - |
| March 31, 2023 | | Between | Between | |
| | <u>Within 1 year</u> | <u>1 and 2 years</u> | <u>2 and 5 years</u> | <u>Over 5 years</u> |
| <u>Non-derivative financial liabilities</u> | | | | |
| Short-term borrowings | \$ 246,463 | \$ - | \$ - | \$ - |
| Lease liabilities | 79,543 | 58,943 | 70,143 | 7,844 |
| Bonds payable | 37,460 | 2,321,456 | 4,404,104 | - |
| Long-term borrowings | 22,691 | 22,248 | 701,566 | - |

The Group did not expect the occurrence timing of cash flow of expiry date analysis would be significantly earlier, or the actual amount would significantly differ.

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in certain derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in convertible corporate bonds and equity investment without active market are included in Level 3.

B. Financial instruments not measured at fair value

- (a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, other current assets, financial assets measured at amortised cost, short-term borrowings, notes payable, accounts payable, other payables, other current liabilities and long-term borrowings are approximate to their fair values.

| | | March 31, 2024 | | | |
|------------------------|---------------------|-------------------|---------------------|-------------|--|
| | | Fair value | | | |
| | Book value | Level 1 | Level 2 | Level 3 | |
| Financial liabilities: | | | | | |
| Bonds payable | <u>\$ 6,461,644</u> | <u>\$ -</u> | <u>\$ 6,443,744</u> | <u>\$ -</u> | |
| | | December 31, 2023 | | | |
| | | Fair value | | | |
| | Book value | Level 1 | Level 2 | Level 3 | |
| Financial liabilities: | | | | | |
| Bonds payable | <u>\$ 7,969,790</u> | <u>\$ -</u> | <u>\$ 7,934,637</u> | <u>\$ -</u> | |
| | | March 31, 2023 | | | |
| | | Fair value | | | |
| | Book value | Level 1 | Level 2 | Level 3 | |
| Financial liabilities: | | | | | |
| Bonds payable | <u>\$ 6,533,771</u> | <u>\$ -</u> | <u>\$ 6,463,005</u> | <u>\$ -</u> | |

- (b) Bonds payable: They are measured at present value, which is calculated based on the cash flow expected to be paid and discounted using a market rate prevailing at balance sheet date.

C. Financial instruments and non-financial instruments measured at fair value

- (a) The related information of the assets and liabilities classified into the three levels is as follows:

| As at March 31, 2024 | Level 1 | Level 2 | Level 3 | Total |
|---|---------------------|------------------|------------------|---------------------|
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Beneficiary certificates | \$ 1,805,905 | \$ - | \$ - | \$ 1,805,905 |
| Forward foreign exchange contracts | - | 2,282 | - | 2,282 |
| Financial assets for hedging | | | | |
| Forward foreign exchange contracts | - | 21,299 | - | 21,299 |
| Financial assets at fair value through other comprehensive income | | | | |
| Unlisted stocks | - | - | 25,094 | 25,094 |
| | <u>\$ 1,805,905</u> | <u>\$ 23,581</u> | <u>\$ 25,094</u> | <u>\$ 1,854,580</u> |

| | | | | |
|---|---------------------|------------------|------------------|---------------------|
| As at March 31, 2024 | Level 1 | Level 2 | Level 3 | Total |
| Liabilities | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward foreign exchange contracts | \$ - | \$ 40,119 | \$ - | \$ 40,119 |
| Financial liabilities for hedging | | | | |
| Forward foreign exchange contracts | - | 512 | - | 512 |
| Embedded derivatives | | | | |
| Convertible bonds payable include call options and put options | - | 13,200 | - | 13,200 |
| | <u>\$ -</u> | <u>\$ 53,831</u> | <u>\$ -</u> | <u>\$ 53,831</u> |
| As at December 31, 2023 | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Beneficiary certificates | \$ 1,151,244 | \$ - | \$ - | \$ 1,151,244 |
| Forward foreign exchange contracts | | 39,346 | - | 39,346 |
| Financial assets for hedging | | | | |
| Forward foreign exchange contracts | - | 998 | - | 998 |
| Financial assets at fair value through other comprehensive income | | | | |
| Unlisted stocks | - | - | 24,720 | 24,720 |
| Embedded derivatives | | | | |
| Convertible bonds payable include call options and put options | - | 4,616 | - | 4,616 |
| | <u>\$ 1,151,244</u> | <u>\$ 44,960</u> | <u>\$ 24,720</u> | <u>\$ 1,220,924</u> |
| As at December 31, 2023 | Level 1 | Level 2 | Level 3 | Total |
| Liabilities | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward foreign exchange contracts | \$ - | \$ 1,097 | \$ - | \$ 1,097 |
| Financial liabilities for hedging | | | | |
| Forward foreign exchange contracts | - | 36,247 | - | 36,247 |
| Embedded derivatives | | | | |
| Convertible bonds payable include call options and put options | - | 17,400 | - | 17,400 |
| | <u>\$ -</u> | <u>\$ 54,744</u> | <u>\$ -</u> | <u>\$ 54,744</u> |

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|-------------------|------------------|-------------------|
| As at March 31, 2023 | | | | |
| Assets | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Forward foreign exchange | \$ - | \$ 2,181 | \$ - | \$ 2,181 |
| Financial assets for hedging | | | | |
| Forward foreign exchange | - | 25 | - | 25 |
| Financial assets at fair value through other comprehensive income | | | | |
| Listed stocks | 158,125 | - | - | 158,125 |
| Unlisted stocks | - | - | 24,092 | 24,092 |
| | <u>\$ 158,125</u> | <u>\$ 2,206</u> | <u>\$ 24,092</u> | <u>\$ 184,423</u> |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| As at March 31, 2023 | | | | |
| Liabilities | | | | |
| <u>Recurring fair value measurements</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Forward foreign exchange | \$ - | \$ 6,634 | \$ - | \$ 6,634 |
| Financial liabilities for hedging | | | | |
| Forward foreign exchange | - | 84,872 | - | 84,872 |
| Embedded derivatives | | | | |
| Convertible bonds payable include call options and put options | - | 9,600 | - | 9,600 |
| | <u>\$ -</u> | <u>\$ 101,106</u> | <u>\$ -</u> | <u>\$ 101,106</u> |

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

| | <u>Listed shares</u> | <u>Closed-end fund</u> | <u>Open-end fund</u> | <u>Government bonds</u> | <u>Corporate bonds</u> | <u>Convertible (exchangeable) bond</u> |
|---------------------|----------------------|------------------------|----------------------|-------------------------|-------------------------------|--|
| Market quoted price | Closing price | Closing price | Net asset value | Transaction price | Weighted average quoted price | Closing price |

- ii. Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.

- iv. For high-complexity financial instruments, the fair value is measured by using self-developed valuation model based on the valuation method and technique widely used within the same industry. The valuation model is normally applied to derivative financial instruments, debt instruments with embedded derivatives or securitised instruments. Certain inputs used in the valuation model are not observable at market, and the Group must make reasonable estimates based on its assumptions. The effect of unobservable inputs to the valuation of financial instruments is provided in Note 12(3) I.
 - v. The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate. Structured interest derivative instruments are measured by using appropriate option pricing models (i.e. Black-Scholes model) or other valuation methods, such as Monte Carlo simulation.
 - vi. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk, etc. In accordance with the Group's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
 - vii. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.
- D. For the three months ended March 31, 2024 and 2023, there was no transfer between Level 1 and Level 2.
- E. The following chart is the movement of Level 3 for the three months ended March 31, 2024 and 2023:

| | 2024 | 2023 |
|---|-------------------|-------------------|
| | Equity securities | Equity securities |
| At January 1 | \$ 24,720 | \$ 24,161 |
| Recorded as unrealised gains (losses) on valuation of investments in equity instruments measured at fair value through other comprehensive income | 374 | (69) |
| At March 31 | \$ 25,094 | \$ 24,092 |

- F. For the three months ended March 31, 2024 and 2023, there was no transfer into or out from Level 3.

G. The finance department of the Group performs the valuation of financial instruments classified as Level 3. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

| | | <u>Fair value at March 31, 2024</u> | <u>Valuation technique</u> | <u>Significant unobservable input</u> | <u>Range (weighted average)</u> | <u>Relationship between inputs and fair value</u> |
|-----------------------------------|----|--|-----------------------------|---|---|---|
| Non-derivative equity instrument: | | | | | | |
| Unlisted stocks | \$ | 25,094 | Market comparable companies | Discount for lack of marketability | 30% | The higher the discount for lack of marketability, the lower the fair value |
| | | <u>Fair value at December 31, 2023</u> | <u>Valuation technique</u> | <u>Significant unobservable input</u> | <u>Range (weighted average)</u> | <u>Relationship between inputs and fair value</u> |
| Non-derivative equity instrument: | | | | | | |
| Unlisted stocks | \$ | 24,720 | Market comparable companies | Discount for lack of marketability | 30% | The higher the discount for lack of marketability, the lower the fair value |
| | | <u>Fair value at March 31, 2023</u> | <u>Valuation technique</u> | <u>Significant unobservable input</u> | <u>Range (weighted average)</u> | <u>Relationship between inputs and fair value</u> |
| Non-derivative equity instrument: | | | | | | |
| Unlisted stocks | \$ | 24,092 | Market comparable companies | Discount for lack of marketability | 30% | The higher the discount for lack of marketability, the lower the fair value |

- I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement results. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

| | | | March 31, 2024 | | December 31, 2023 | | March 31, 2023 | |
|--------------------|-----------|--------|----------------|--------------|-------------------|--------------|----------------|--------------|
| | | | Favourable | Unfavourable | Favourable | Unfavourable | Favourable | Unfavourable |
| | | | change | change | change | change | change | change |
| Financial assets | Input | Change | | | | | | |
| Equity instruments | Liquidity | ±5% | \$ 1,792 | \$ 1,792 | \$ 1,768 | \$ 1,768 | \$ 1,721 | \$ 1,721 |

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 6.
- I. Derivative instrument transaction undertaken during the reporting periods: Please refer to Notes 6(2), 6(4) and 12.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 7.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 8.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 9.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to tables 1, 2, 5, 6, and 7.

(4) Major shareholders information

Major shareholders information: Please refer to table 10.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The financial information is concentrated on product sales, however since each plant shares similar economic characteristics, produces similar products by using similar production processes, the Group's segments are aggregated into a single reportable segment.

(2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is the same information shown in the balance sheets and statements of comprehensive income.

(Blank)

Sercomm Corporation and Subsidiaries
Loans to others
Three months ended March 31, 2024

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

| No. (Note 1) | Creditor | Borrower | General ledger account | Is a related party | Maximum outstanding endorsement/ guarantee amount as of March 31, 2024 | Balance at March 31, 2024 | Actual amount drawn down | Interest rate(%) | Nature of loan (Note 4) | Amount of transactions with the borrower | Reason for short- term financing | Allowance for bad debt | Collateral | | Limit on loans granted to a single party | Ceiling on total loans granted | Footnote |
|-----------------|--|---------------------------------|-------------------------------------|--------------------------|--|---------------------------------|--------------------------------|---------------------|----------------------------|---|-------------------------------------|------------------------------|------------|-------|--|-----------------------------------|--------------|
| | | | | | | | | | | | | | Item | Value | | | |
| 1 | DWNet Technology (Suzhou) Co., Ltd. | Sernet (Suzhou) Technologies | Other receivables- related party | Y | \$ 264,480 | \$ 264,480 | \$ 264,480 | 3.45 | (2) | \$ - | Additional operating capital | \$ - | - | \$ - | \$ 341,864 | \$ 683,729 | Note 3(3) |
| 2 | Zealous Investments Ltd. | The Company | Other receivables- related party | Y | 1,119,650 | 1,119,650 | 1,023,680 | 5.00 | (2) | - | Additional operating capital | - | - | - | 2,592,772 | 5,185,544 | Note 3(3) |

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

- (1)The Company is '0'.
- (2)The subsidiaries are numbered in order starting from '1'.

Note 2: The aggregate amount of loans to others shall not exceed 40% of the Company's net assets based on the latest audited or reviewed financial statements.

The loan limit for each entity depending on the purpose of the loan is as follows:

- (1) Nature of loans is related to business transactions: The amount shall not exceed the higher of the sales or purchases amount to/ from the borrower for the year as of the time of the lending event or for the most recent year.
- (2) As short-term financing: The amount shall not exceed 20% of the Company's net assets based on the latest audited or reviewed financial statements.
- (3) Financing between the Company's 100% directly- or indirectly- held overseas investee is not limited to 40% of the Company's net assets based on the latest audited or reviewed financial statements.

However, total loans shall not exceed 100% net assets. Loans to a signal party shall not exceed 50% net assets.

Note 3: The aggregate amount of loans from subsidiaries to others shall not exceed 40% of stockholders' equity as stated in the subsidiary's or the Company's most recent audited or reviewed financial statements, whichever is lower.

The loan limit for each entity depending on the purpose of the loan is as follows:

- (1) Nature of loans is related to business transactions: The amount shall not exceed the higher of the sales or purchases amount to/ from the trading partner for the year as of the time of the lending event or for the most recent year.
- (2) As short-term financing: The amount shall not exceed 20% of the subsidiary or the Company's net assets based on the latest audited or reviewed financial statements.
- (3) Financing between the group's investee which is 100% directly- or indirectly- held by the parent company is not limited to the ratio as stated in the preceding paragraph.

However, total loans shall not exceed 100% net assets as stated in the parent company's most recent audited or reviewed financial statement. Loans to individual investee shall not exceed 50% net assets.

Note 4: (1)Nature of loans is related to business transactions : The trading amounts refer to the business transaction amounts within the recent year between the lender company and the lendeer entity.

- (2)Short-term financing

Sercomm Corporation and Subsidiaries
Provision of endorsements and guarantees to others
Three months ended March 31, 2024

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Endorser/ guarantor | Party being endorsed/guaranteed | | Limit on endorsements/ guarantees provided for a single party (Note 3) | Maximum outstanding endorsement/ guarantee amount as of March 31, 2024 (Note 4) | Outstanding endorsement/ guarantee amount at March 31, 2024 | Actual amount drawn down | Amount of endorsements/ guarantees secured with collateral | Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company (%) | Ceiling on total amount of endorsements/ guarantees provided (Note 3) | Provision of endorsements/ guarantees by parent company to subsidiary | Provision of endorsements/ guarantees by subsidiary to parent company | Provision of endorsements/ guarantees to the party in Mainland China | Footnote |
|--------------------|------------------------|--|---|--|--|---|-----------------------------|--|---|---|--|--|---|----------|
| | | Company name | Relationship with the endorser/ guarantor (Note 2) | | | | | | | | | | | |
| 0 | The Company | DWNet Technology (Suzhou) Co., Ltd. | (2) | \$ 7,100,566 | \$ 799,750 | \$ 799,750 | \$ 153,394 | \$ - | 5.63 | \$ 14,201,133 | Y | N | Y | |
| 0 | " | Sernet (Suzhou) Technologies Corporation | (2) | 7,100,566 | 959,700 | 959,700 | - | - | 6.76 | 14,201,133 | Y | N | Y | |
| 0 | " | Sercomm Philippines Inc. | (2) | 3,550,283 | 319,900 | 319,900 | - | - | 4.51 | 7,100,566 | Y | N | N | |

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

- (a) The Company is '0'.
- (b) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories:

- (a) Having business relationship.
- (b) The endorser/guarantor parent company owns directly more than 50% voting shares of the endorsed/guaranteed subsidiary.
- (c) The endorser/guarantor parent company and its subsidiaries jointly own more than 50% voting shares of the endorsed/guaranteed company.
- (d) The endorsed/guaranteed parent company directly or indirectly owns more than 50% voting shares of the endorser/guarantor subsidiary.
- (e) Mutual guarantee of the trade as required by the construction contract.
- (f) Due to joint venture, each shareholder provides endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
- (g) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: The Company's 'Procedures for Provision of Endorsements and Guarantees' are as follows:

- (1) Limit on total endorsements is 50% of the Company's net assets based on the latest audited or reviewed financial statements, and limit on endorsements to a single party is 25%.
- (2) The restriction stated in (1) shall not apply to provision of endorsements and guarantees between subsidiaries in which the Company holds, directly or indirectly, 100% of the voting shares.
However the endorsement / guarantee amount should not exceed 100% net assets. Endorsements / guarantees provided to individual investees should not exceed 50% net assets.
- (3) The amounts permitted to make in endorsements/guarantees to single subsidiary shall not exceed 50% of the Company's stockholders' equity as stated in its latest financial statements;
the total amount shall not exceed 100% of stockholders' equity as stated in its latest financial statement.

Note 4: Fill in the year-to-date maximum outstanding balance of endorsements/guarantees provided as of the reporting period.

Sercomm Corporation and Subsidiaries
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)
March 31, 2024

Table 3 Expressed in thousands of NTD
(Except as otherwise indicated)

| | | | | As of March 31, 2024 | | | |
|--------------------------|------------------------------------|---|---|---------------------------------------|------------|---------------|------------|
| Securities held by | Marketable securities | Relationship with the securities issuer | General ledger account | Number of shares (in thousand shares) | Book value | Ownership (%) | Fair value |
| | Beneficiary certificates | | | | | | |
| The Company | Capital Money Market Fund | " | Financial assets at fair value through profit or loss - current | 48,250 | \$ 802,893 | - | \$ 802,893 |
| " | Taishin Ta-Chong Money Market Fund | " | Financial assets at fair value through profit or loss - current | 68,438 | 1,003,012 | - | 1,003,012 |
| | Convertible bonds | | | | | | |
| " | Siklu Inc. | " | Financial assets at fair value through profit or loss - current | 137 | - | 3.06% | - |
| | Unlisted preference share | | | | | | |
| " | Siklu Inc. | " | Financial assets at fair value through other comprehensive income - non-current | 2,018 | - | 3.06% | - |
| | Unlisted stocks | | | | | | |
| Sercomm Investment Corp. | Cerpass Technology Co., Ltd. | " | Financial assets at fair value through other comprehensive income - non-current | 627 | 25,094 | 3.69% | 25,094 |
| | Unlisted stocks | | | | | | |
| Zealous Investments Ltd. | Bossa Nova Robotics Holding Corp. | " | Financial assets at fair value through profit or loss - non-current | 3,845 | - | 8.64% | - |

Table 4

Sercomm Corporation and Subsidiaries
Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital
Three months ended March 31, 2024

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investor | | Marketable securities (Note 1) | General ledger account | Counterparty | Relationship with the investor | Balance as at | | Addition | | Disposal | | | Evaluation at March 31, 2024 | | Balance as of March 31, 2024 | | | | |
|-------------|-------------------------------|-----------------------------------|------------------------|--------------|--------------------------------|--------------------|------------|--------------------|--------------|--------------------|---------------|------------|------------------------------|--------------------|------------------------------|--------------------|--------------|-----------|--|
| | | | | | | January 1, 2024 | | Number of | | Number of | | Number of | | Gain (loss) on | | Number of | | Number of | |
| | | | | | | shares in thousand | Amount | shares in thousand | Amount | shares in thousand | Selling price | Book value | disposal | shares in thousand | Amount | shares in thousand | Amount | | |
| The Company | Taishin Ta-Chong Money Market | Note 1 | N/A | N/A | | 24,021 | \$ 350,918 | 68,347 | \$ 1,000,000 | 23,930 | \$ 350,000 | \$ 348,676 | \$ 1,324 | - | \$ 770 | 68,438 | \$ 1,003,012 | | |

Note 1: It was recognised in 'Financial assets measured at fair value through profit or loss-current'.

Sercomm Corporation and Subsidiaries
Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more
Three months ended March 31, 2024

Table 5

Expressed in thousands of NTD
(Except as otherwise indicated)

| Purchaser/seller | Counterparty | Relationship with the counterparty | Transaction | | | | Differences in transaction terms compared to third party transactions (Note) | | Notes/accounts receivable (payable) | | Footnote |
|------------------|--|--|----------------------|--------------|--|-------------|---|-------------|-------------------------------------|--|----------|
| | | | Purchases (sales) | Amount | Percentage of total purchases (sales)(%) | Credit term | Unit price | Credit term | Balance | Percentage of total notes/accounts receivable (payable)(%) | |
| The Company | Sercomm Philippines Inc. | Subsidiary | Purchases | \$ 4,841,872 | 48 | 60 | Note 1 | Note 1 | (\$ 4,370,672) | (34) | |
| " | Sernet (Suzhou) Technologies Corporation | Subsidiary | Purchases | 3,185,068 | 32 | 60 | Note 1 | Note 1 | (3,046,732) | (23) | |
| " | Servercom (India) Private Limited | Subsidiary | Sales | (2,819,575) | (21) | 180 | Note 2 | Note 2 | 4,512,179 | 29 | |
| " | Sercomm Philippines Inc. | Subsidiary | Sales | (781,069) | (6) | 180 | Note 2 | Note 2 | 2,231,289 | 14 | |
| " | Sercomm Japan Corp. | Subsidiary | Sales | (623,369) | (5) | 180 | Note 2 | Note 2 | 1,107,083 | 7 | |

Note 1: The purchase price to the above related parties was determined through mutual agreement based on the market conditions. The payment period for related parties was month-end 60 days, while the terms for domestic third party purchase was net 60-120 days. The payment period for overseas purchase was net 30-210 days.

Note 2: The sales price to the above related parties was determined through mutual agreement based on the market conditions. The collection period for related parties was month-end 180 days, while the terms for domestic third party sales was net 30-75 days. The collection period for overseas sales was net 30-210 days.

Note 3: The transaction price to the inter-subsidiary transactions was determined through mutual agreement based on the market conditions. The collection period and payment period for related parties were month-end 180 days, while the terms for domestic third party transaction was net 30-120 days. The collection period and payment period for overseas transaction were net 30-210 days.

Sercomm Corporation and Subsidiaries
Receivables from related parties reaching \$100 million or 20% of paid-in capital or more
March 31, 2024

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

| Creditor | Counterparty | Relationship with the counterparty | Balance as of March 31, 2024 | Turnover rate(%) | Overdue receivables | | Amount collected subsequent to the balance sheet date (Note) | Allowance for loss |
|--|-----------------------------------|---------------------------------------|---------------------------------|------------------|---------------------|--------------|--|--------------------|
| | | | | | Amount | Action taken | | |
| The Company | Servercom (India) Private Limited | Subsidiary | \$ 4,512,179 | - | \$ - | - | \$ 476,481 | \$ - |
| " | Sercomm Philippines Inc. | Subsidiary | 2,231,289 | - | - | - | 474,194 | - |
| " | Sercomm Japan Corp. | Subsidiary | 1,107,083 | - | - | - | 46,128 | - |
| Sernet (Suzhou) Technologies Corporation | Sercomm Philippines Inc. | Affiliate | 174,088 | - | - | - | 116,734 | - |

Note 1: Information was collected as of April 30, 2024.

Sercomm Corporation and Subsidiaries
Significant inter-company transactions during the reporting periods
Three months ended March 31, 2024

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (%) (Note 3) |
|--------------------|--------------|--|--------------------------|------------------------|-----------|-------------------|--|
| | | | | General ledger account | Amount | Transaction terms | |
| 0 | The Company | Sercomm France SARL | 1 | Other payables | \$ 16,237 | - | - |
| 0 | " | " | 1 | Commissions expense | 16,237 | - | - |
| 0 | " | Sercomm Italia SRL | 1 | Other payables | 12,178 | - | - |
| 0 | " | " | 1 | Commissions expense | 10,700 | - | - |
| 0 | " | Sercomm Deutschland GmbH | 1 | Commissions expense | 9,202 | - | - |
| 0 | " | Servercom (India) Private Limited | 1 | Accounts receivable | 4,512,179 | - | 9 |
| 0 | " | " | 1 | Other receivables | 33,473 | - | - |
| 0 | " | " | 1 | Sales revenue | 2,819,575 | Note 4 | 17 |
| 0 | " | Sercomm Japan Corp. | 1 | Accounts receivable | 1,107,083 | - | 2 |
| 0 | " | " | 1 | Sales revenue | 623,369 | Note 4 | 4 |
| 0 | " | Sernet Technology Mexico | 1 | Prepayments | 14,287 | - | - |
| 0 | " | Sercomm Britain Inc. | 1 | Other payables | 5,262 | - | - |
| 0 | " | Sercomm USA Inc. | 1 | Other payables | 22,136 | - | - |
| 0 | " | Sercomm Technology Inc. | 1 | Other payables | 49,676 | - | - |
| 0 | " | " | 1 | Commissions expense | 152,701 | - | - |
| 0 | " | Sernet (Suzhou) Technologies Corporation | 1 | Accounts payable | 3,046,732 | - | 6 |
| 0 | " | " | 1 | Accounts receivable | 46,548 | - | - |
| 0 | " | " | 1 | Purchase | 3,185,068 | - | 20 |
| 0 | " | " | 1 | Sales revenue | 49,431 | Note 4 | - |
| 0 | " | Sercomm Philippines Inc. | 1 | Accounts payable | 4,370,672 | - | 9 |
| 0 | " | " | 1 | Accounts receivable | 2,231,289 | - | 5 |
| 0 | " | " | 1 | Other receivables | 5,894 | - | - |
| 0 | " | " | 1 | Purchase | 4,841,872 | - | 30 |
| 0 | " | " | 1 | Sales revenue | 781,069 | Note 4 | 5 |
| 0 | " | DWNet Technology (Suzhou) Co., Ltd. | 1 | Accounts receivable | 13,151 | - | - |
| 0 | " | Zealous Investments Ltd. | 1 | Other payables | 1,076,272 | - | 2 |
| 0 | " | " | 1 | Interest expense | 12,925 | - | - |

Sercomm Corporation and Subsidiaries
Significant inter-company transactions during the reporting periods
Three months ended March 31, 2024

Table 7

Expressed in thousands of NTD
(Except as otherwise indicated)

| Number (Note 1) | Company name | Counterparty | Relationship (Note 2) | Transaction | | | Percentage of consolidated total operating revenues or total assets (%) (Note 3) |
|--------------------|--|--|--------------------------|-------------------------|-----------|-------------------|--|
| | | | | General ledger account | Amount | Transaction terms | |
| 1 | Sernet (Suzhou) Technologies Corporation | DWNet Technology (Suzhou) Co., Ltd. | 1 | Accounts receivable | \$ 38,077 | - | - |
| 1 | " | " | 1 | Other receivables | 10,962 | - | - |
| 1 | " | " | 1 | Other payables | 266,517 | - | - |
| 1 | " | " | 1 | Processing fees revenue | 14,191 | - | - |
| 1 | " | Sercomm Philippines Inc. | 3 | Accounts receivable | 174,088 | - | - |
| 1 | " | " | 3 | Sales revenue | 21,637 | Note 4 | - |
| 1 | " | Sercomm Russia Limited Liability Company | 3 | Purchase | 5,994 | - | - |
| 1 | " | Nanjing Femtel Communications Co., Ltd. | 3 | Other payables | 8,772 | - | - |
| 1 | " | " | 3 | Service expense | 8,277 | - | - |
| 1 | " | Zealous Investments Ltd. | 3 | Other payables | 97,484 | - | - |
| 2 | Sercomm Philippines Inc. | Servercom (India) Private Limited | 3 | Accounts receivable | 48,114 | - | - |
| 3 | DWNet Technology (Suzhou) Co., Ltd. | Smart Trade Inc. | 3 | Dividends payable | 88,576 | - | - |

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following Six categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount during the year to consolidated total operating revenues for income statement accounts.

Note 4: The sales price to the above related parties was determined through mutual agreement based on the market conditions. The collection period for third party was month-end 60-180 days, while the terms for domestic sales was net 30-75 days. The collection period for overseas sales was net 30-210 days.

Note 5: Only disclose transactions with amount of \$5,000 or more.

Sercomm Corporation and Subsidiaries
Information on investees (excluding investees in Mainland China)
Three months ended March 31, 2024

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held and book value as at March 31, 2024 | | | Net profit (loss) of the investee for the three months ended March 31, 2024 | Investment income (loss) recognised by the Company for the three months ended March 31, 2024 | Footnote |
|-------------|--|-------------|--|---------------------------------|------------------------------------|--|------------------|-------------|---|--|---------------------------------|
| | | | | Balance as at March 31, 2024 | Balance as at December 31, 2023 | Number of shares (in thousand shares) | Ownership (%) | Book value | | | |
| | | | | | | | | | | | |
| The Company | Sercomm USA Inc. | USA | Local market consultation and customer support services of network communication products | \$ 20,739 | \$ 20,739 | 650 | 100 | \$ 39,433 | \$ 1,274 | \$ 1,274 | Subsidiary |
| " | Sercomm Trading Co. Ltd. | Samoa | Overseas indirect investment | 556,786 | 556,786 | 16,800 | 100 | 5,503,093 (| 70,317) (| 43,623) | Subsidiary |
| " | Sercomm Investment Corp. | Taiwan | General investment | 28,000 | 28,000 | 28,000 | 100 | 38,786 | 29 | 29 | Subsidiary |
| " | Sercomm Japan Corp. | Japan | Sales of communication products and quotation, tender, general import and export business related the products | 157,721 | 157,721 | 10 | 100 | 70,325 (| 1,029) (| 1,029) | Subsidiary |
| " | Sercomm France SARL. | France | Local market consultation and customer support services of network communication products | 4,004 | 4,004 | 1 | 100 | 42,184 | 2,268 | 2,268 | Subsidiary |
| " | Sercomm Deutschland GmbH | Germany | Local market consultation and customer support services of network communication products | 19,412 | 19,412 | - | 100 | 8,550 | 6,126 | 6,126 | Subsidiary |
| " | Sercomm Russia Limited Liability Company | Russia | Sales of network communication products and provision of quotation, tender, general import and export business to the related the products | 28,042 | 28,042 | 28,948 | 100 (| 6,912) | 1,993 | 1,993 | Subsidiary |
| " | Sercomm Technology Inc. | USA | Sales of network communication products and provision of quotation, tender, general import and export business to the related the products | 153,880 | 153,880 | 5,000 | 100 | 72,578 | 7,040 | 7,040 | Subsidiary |
| " | Sercomm Britain Limited | UK | Local market consultation and customer support services of network communication products | 13,535 | 13,535 | 350 | 100 | 54,780 | 181 | 181 | Subsidiary |
| " | Sernet Technology Mexico | Mexico | Local market consultation and customer support services of network communication products | 507 | 507 | 400 | 100 (| 12,837) (| 495) (| 495) | Subsidiary |
| " | Servercom (India) Private Limited | India | Manufacturing and sales of communication products, operating system (OS) and related software | 15,000 | 15,000 | 35,000 | 100 | 77,125 (| 55,932) (| 55,932) | Subsidiary |
| " | Sercomm Philippines Inc. | Philippines | Manufacturing and sales of communication products, operating system (OS) and related software | 1,094,819 | 1,094,819 | 10,940,000 | 97 | 1,206,560 (| 93,681) | 9,625 | Subsidiary |
| " | Refinement Property Holding Inc. | Philippines | Real estate for rent | 240,000 | 240,000 | - | - | - | - | - | Second-tier subsidiary (Note 1) |
| " | Mosolabs Inc. | USA | Retail business services of network communication products | 108,746 | 77,418 | 3,500 | 100 | 83,078 (| 8,354) (| 8,354) | Subsidiary |
| " | Presciense Limited | UK | Design, R&D and application of smarthome platform technology | - | - | 3 | 25 | - | - | - | Associate |
| " | Sercomm Brazil Ltda | Brazil | Local market consultation and customer support services of network communication products | 3,208 | 3,208 | - | 100 | 2,291 (| 309) (| 309) | Subsidiary |
| " | Scnet (India) Private Limited | India | Manufacturing and sales of communication products, operating system (OS) and related software | 251,679 | - | 1,326 | 100 | 246,164 (| 8,186) (| 8,186) | Subsidiary |

Sercomm Corporation and Subsidiaries
Information on investees (excluding investees in Mainland China)
Three months ended March 31, 2024

Table 8

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investor | Investee | Location | Main business activities | Initial investment amount | | Shares held and book value as at March 31, 2024 | | | Net profit (loss) of the investee for the three months ended March 31, 2024 | Investment income (loss) recognised by the Company for the three months ended March 31, 2024 | Footnote |
|--------------------------|----------------------------------|-------------|---|------------------------------|---------------------------------|---|---------------|--------------|---|--|------------------------|
| | | | | Balance as at March 31, 2024 | Balance as at December 31, 2023 | Number of shares (in thousand shares) | Ownership (%) | Book value | | | |
| Sercomm Trading Co. Ltd. | Zealous Investments Ltd. | Samoa | Overseas investment | \$ 379,758 | \$ 379,758 | 10,956 | 100 | \$ 5,185,544 | \$ (72,092) | \$ - | Second-tier subsidiary |
| " | Smart Trade Inc. | Samoa | Overseas investment | 177,029 | 177,029 | 6,000 | 100 | 770,313 | 1,775 | - | Second-tier subsidiary |
| Sercomm France SARL | Sercomm Italia SRL. | Italy | Local market consultation and customer support services of network communication products | 388 | 388 | 10 | 100 | 8,435 | 434 | - | Second-tier subsidiary |
| Zealous Investments Ltd. | Sercomm Philippines Inc. | Philippines | Manufacturing and sales of communication products, operating system (OS) and related software | 35,266 | 35,266 | 60,000 | 3 | 159,530 | (93,681) | - | Second-tier subsidiary |
| " | Refinement Property Holding Inc. | Philippines | Lease of real estate | 119 | 119 | 200 | 40 | (7,383) | 983 | - | Second-tier subsidiary |
| Sercomm Deutschland GmbH | MECSware GmbH | Germany | Sale of IT products | 30,144 | 30,144 | 11 | 30 | 13,292 | 19,507 | 5,853 | Associate |

Note 1: Following the Group's operating strategies, the Company invested in preferred stocks in the third quarter of 2022. As of the financial statement reporting date, the registration is still in progress. It was shown as 'prepayments for investments' of \$240,000.

Sercomm Corporation and Subsidiaries
Information on investments in Mainland China
Three months ended March 31, 2024

Table 9

Expressed in thousands of NTD
(Except as otherwise indicated)

| Investee in Mainland China | Main business activities | Paid-in capital | Investment method (Note 1) | Accumulated | Maximum outstanding | | Accumulated | Net income of | Ownership held by the Company (direct or indirect)(%) | Investment | Book value of investments in Mainland China as of March 31, 2024 | Accumulated | Footnote |
|---|---|-----------------|-------------------------------|---|--|--|--|--|---|---|--|-------------|------------------|
| | | | | amount remitted from Taiwan to Mainland China as of January 1, 2023 | endorsement/ guarantee amount as of <u>March 31, 2024</u> | amount remitted from Taiwan to Mainland China as of March 31, 2024 | investee for the three months ended March 31, 2024 | income (loss) recognised by the Company for the three months ended March 31, 2024 | | amount of investment income remitted back to Taiwan as of March 31, 2024 | | | |
| Sernet (Suzhou) Technologies Corporation | Research and development (R&D) and manufacturing of communication products | \$ 933,252 | (2) | \$ 912,698 | \$ - | \$ - | \$ 912,698 | (\$ 61,148) | 100 | (\$ 61,148) | \$ 3,789,144 | \$ - | Notes 2 and 3 |
| DWNet Technology (Suzhou) Co., Ltd. | Manufacturing and sales of communication products, operating system (OS) and related software | 481,829 | (2) | 481,829 | - | - | 481,829 | 1,775 | 100 | 1,775 | 683,729 | - | Note 4 |
| Nanjing Femtel Communications Co., Ltd. | Research and development (R&D) and sales of network communication products and related software | 12,538 | (2) | - | - | - | - | 1,999 | 100 | 1,999 | 11,407 | - | Note 3 |

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:
(1) Directly invest in a company in Mainland China.
(2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
(3) Others

Note 2: Investment income (loss) was recognised based on the financial statement reviewed by the parent company's independent auditors.
Note 3:The Company established Sercomm Trading Co. Ltd. in a third region. The Company reinvested in Zealous Investments Ltd. through Sercomm Trading Co. Ltd. and then invested in Mainland China.
Note 4:The Company established Sercomm Trading Co. Ltd. in a third region. The Company reinvested Smart Trade Inc. through Sercomm Trading Co. Ltd. and then invested in Mainland China
Note 5:The Company's investment in Mainland China is not subject to an upper limit as it is deemed corporate operations headquarters as it complied with the Examination Standards of Investments and Technical Cooperation in the Mainland China area published by Investment Commission, MOEA.

| Company name | Accumulated amount remitted from Taiwan to Mainland China as of March 31, 2024 | Investment amount approved by the Investment Commission of the Ministry of MOEA | Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA |
|--------------|--|--|---|
| | | | |
| The Company | \$ 1,394,527 (USD 44,900,000) | \$1,407,475 (USD 45,144,000) | No limitation (Note 5) |

Sercomm Corporation and Subsidiaries
Major shareholders information
Three months ended March 31, 2024

Table 10

| Name of major shareholders | Shares | |
|---|---|---------------|
| | No. of shares held (in thousand shares) | Ownership (%) |
| Securities investment trust fund account for Yuanta Taiwan Value High Dividend ETF under the custody of Hua Nan Commercial Bank | 16,877 | 5.7 |