

**Keystone Microtech Corporation and
Subsidiaries**

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2023 and 2022 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Keystone Microtech Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Keystone Microtech Corporation (the “Company”) and its subsidiaries (the Group) as of September 30, 2023 and 2022, the related consolidated statements of comprehensive income for the three months ended September 30, 2023 and 2022 and for the nine months ended September 30, 2023 and 2022, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the “consolidated financial statements”). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused 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 of September 30, 2023 and 2022, its consolidated financial performance for the three months ended September 30, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2023 and 2022 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Chung Chen Chen and Chiang Hsun Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 3, 2023

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' review report and consolidated financial statements shall prevail.

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

| ASSETS | September 30, 2023 | | December 31, 2022 | | September 30, 2022 | |
|---|---------------------|------------|---------------------|------------|---------------------|------------|
| | Amount | % | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | \$ 1,285,248 | 52 | \$ 1,181,605 | 48 | \$ 1,086,528 | 44 |
| Trade receivables (Notes 7 and 18) | 273,753 | 11 | 214,902 | 9 | 269,258 | 11 |
| Inventories (Note 8) | 412,855 | 17 | 540,455 | 22 | 581,311 | 24 |
| Prepayments (Note 13) | 9,624 | - | 9,746 | - | 11,486 | - |
| Total current assets | <u>1,981,480</u> | <u>80</u> | <u>1,946,708</u> | <u>79</u> | <u>1,948,583</u> | <u>79</u> |
| NON-CURRENT ASSETS | | | | | | |
| Property, plant and equipment (Notes 10 and 27) | 448,806 | 18 | 459,015 | 19 | 465,682 | 19 |
| Right-of-use assets (Note 11) | 10,775 | 1 | 7,059 | - | 8,748 | - |
| Other intangible assets (Note 12) | 7,802 | - | 9,046 | - | 12,367 | 1 |
| Deferred tax assets (Note 4) | 24,376 | 1 | 17,387 | 1 | 10,453 | - |
| Other non-current assets (Note 13) | 7,271 | - | 17,554 | 1 | 15,019 | 1 |
| Total non-current assets | <u>499,030</u> | <u>20</u> | <u>510,061</u> | <u>21</u> | <u>512,269</u> | <u>21</u> |
| TOTAL | <u>\$ 2,480,510</u> | <u>100</u> | <u>\$ 2,456,769</u> | <u>100</u> | <u>\$ 2,460,852</u> | <u>100</u> |
| LIABILITIES AND EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Contract liabilities - current (Note 18) | \$ 84,364 | 4 | \$ 120,660 | 5 | \$ 153,102 | 6 |
| Notes payable (Note 14) | 140 | - | - | - | - | - |
| Trade payables (Note 14) | 77,741 | 3 | 80,252 | 3 | 135,068 | 6 |
| Other payables (Notes 15 and 23) | 124,698 | 5 | 145,194 | 6 | 162,599 | 7 |
| Current tax liabilities (Note 4) | 28,235 | 1 | 36,416 | 2 | 22,265 | 1 |
| Lease liabilities - current (Note 11) | 6,801 | - | 4,318 | - | 5,140 | - |
| Other current liabilities (Note 15) | 3,016 | - | 1,062 | - | 3,908 | - |
| Total current liabilities | <u>324,995</u> | <u>13</u> | <u>387,902</u> | <u>16</u> | <u>482,082</u> | <u>20</u> |
| NON-CURRENT LIABILITIES | | | | | | |
| Deferred tax liabilities (Note 4) | 10,763 | 1 | 4,815 | - | - | - |
| Lease liabilities - non-current (Note 11) | 3,841 | - | 2,843 | - | 3,719 | - |
| Total non-current liabilities | <u>14,604</u> | <u>1</u> | <u>7,658</u> | <u>-</u> | <u>3,719</u> | <u>-</u> |
| Total liabilities | <u>339,599</u> | <u>14</u> | <u>395,560</u> | <u>16</u> | <u>485,801</u> | <u>20</u> |
| EQUITY (Note 17) | | | | | | |
| Share capital | | | | | | |
| Ordinary shares | 272,177 | 11 | 272,257 | 11 | 272,257 | 11 |
| Capital surplus | 323,750 | 13 | 325,166 | 13 | 325,166 | 13 |
| Retained earnings | | | | | | |
| Legal reserve | 236,621 | 10 | 195,976 | 8 | 195,976 | 8 |
| Unappropriated earnings | 1,318,804 | 53 | 1,289,748 | 53 | 1,207,265 | 49 |
| Total retained earnings | 1,555,425 | 63 | 1,485,724 | 61 | 1,403,241 | 57 |
| Other equity | (10,441) | (1) | (21,938) | (1) | (25,613) | (1) |
| Total equity | <u>2,140,911</u> | <u>86</u> | <u>2,061,209</u> | <u>84</u> | <u>1,975,051</u> | <u>80</u> |
| TOTAL | <u>\$ 2,480,510</u> | <u>100</u> | <u>\$ 2,456,769</u> | <u>100</u> | <u>\$ 2,460,852</u> | <u>100</u> |

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

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

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

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|---|---|-------------|-------------------|-------------|--|-------------|-------------------|-------------|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| OPERATING REVENUE | | | | | | | | |
| Sales (Note 18) | \$ 346,789 | 100 | \$ 396,288 | 100 | \$ 1,064,632 | 100 | \$ 1,153,675 | 100 |
| OPERATING COSTS | | | | | | | | |
| Cost of goods sold (Notes 8, 12 and 19) | (172,574) | (49) | (218,244) | (55) | (534,078) | (50) | (591,547) | (52) |
| GROSS PROFIT | <u>174,215</u> | <u>51</u> | <u>178,044</u> | <u>45</u> | <u>530,554</u> | <u>50</u> | <u>562,128</u> | <u>48</u> |
| OPERATING EXPENSES | | | | | | | | |
| (Notes 12, 19 and 26) | | | | | | | | |
| Selling and marketing expenses | (12,157) | (3) | (14,459) | (4) | (40,163) | (4) | (33,610) | (3) |
| General and administrative expenses | (13,528) | (4) | (13,958) | (3) | (40,590) | (4) | (38,769) | (3) |
| Research and development expenses | (44,429) | (13) | (46,007) | (12) | (130,394) | (12) | (140,531) | (12) |
| Expected credit loss (Note 7) | (16,228) | (5) | (8,936) | (2) | (20,120) | (2) | (8,788) | (1) |
| Total operating expenses | <u>(86,342)</u> | <u>(25)</u> | <u>(83,360)</u> | <u>(21)</u> | <u>(231,267)</u> | <u>(22)</u> | <u>(221,698)</u> | <u>(19)</u> |
| PROFIT FROM OPERATIONS | <u>87,873</u> | <u>26</u> | <u>94,684</u> | <u>24</u> | <u>299,287</u> | <u>28</u> | <u>340,430</u> | <u>29</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | | | | | |
| (Note 19) | | | | | | | | |
| Interest income | 5,135 | 1 | 6 | - | 14,867 | 2 | 463 | - |
| Other income | 95 | - | 150 | - | 342 | - | 167 | - |
| Other gains and losses | 37,584 | 11 | 35,464 | 9 | 35,275 | 3 | 77,218 | 7 |
| Finance costs | (35) | - | (56) | - | (349) | - | (141) | - |
| Total non-operating income and expenses | <u>42,779</u> | <u>12</u> | <u>35,564</u> | <u>9</u> | <u>50,135</u> | <u>5</u> | <u>77,707</u> | <u>7</u> |
| PROFIT BEFORE INCOME TAX | 130,652 | 38 | 130,248 | 33 | 349,422 | 33 | 418,137 | 36 |
| INCOME TAX EXPENSE | | | | | | | | |
| (Notes 4 and 20) | <u>(25,707)</u> | <u>(8)</u> | <u>(25,588)</u> | <u>(7)</u> | <u>(75,529)</u> | <u>(7)</u> | <u>(94,169)</u> | <u>(8)</u> |
| NET PROFIT FOR THE PERIOD | 104,945 | 30 | 104,660 | 26 | 273,893 | 26 | 323,968 | 28 |
| NET OTHER COMPREHENSIVE INCOME | | | | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | | | | |
| Exchange differences on translation of the financial statements of foreign operations (Note 17) | <u>672</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>223</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>\$ 105,617</u> | <u>30</u> | <u>\$ 104,660</u> | <u>26</u> | <u>\$ 274,116</u> | <u>26</u> | <u>\$ 323,968</u> | <u>28</u> |

(Continued)

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

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

| | For the Three Months Ended September 30 | | | | For the Nine Months Ended September 30 | | | |
|--------------------|---|---|----------------|---|--|---|-----------------|---|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| EARNINGS PER SHARE | | | | | | | | |
| (Note 21) | | | | | | | | |
| Basic | <u>\$ 3.87</u> | | <u>\$ 3.87</u> | | <u>\$ 10.11</u> | | <u>\$ 11.97</u> | |
| Diluted | <u>\$ 3.84</u> | | <u>\$ 3.83</u> | | <u>\$ 10.00</u> | | <u>\$ 11.82</u> | |

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

(Concluded)

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars)

| | Capital | | Retained Earnings | | Other Equity | | Total Equity |
|---|-------------------|-------------------|-------------------|-------------------------|---|--------------------|---------------------|
| | Ordinary Shares | Capital Surplus | Legal Reserve | Unappropriated Earnings | Exchange Differences on Translation of the Financial Statements of Foreign Operations | Others | |
| BALANCE AT JANUARY 1, 2022 | \$ 270,757 | \$ 298,616 | \$ 154,006 | \$ 1,136,457 | \$ - | \$ - | \$ 1,859,836 |
| Appropriation of 2021 earnings (Note 17) | | | | | | | |
| Legal reserve | - | - | 41,970 | (41,970) | - | - | - |
| Cash dividends distributed by the Company | - | - | - | (211,190) | - | - | (211,190) |
| Share-based payment transactions (Notes 17 and 22) | 1,500 | 26,550 | - | - | - | (25,613) | 2,437 |
| Net profit for the nine months ended September 30, 2022 | - | - | - | 323,968 | - | - | 323,968 |
| Total comprehensive income for the nine months ended September 30, 2022 | - | - | - | 323,968 | - | - | 323,968 |
| BALANCE AT SEPTEMBER 30, 2022 | <u>\$ 272,257</u> | <u>\$ 325,166</u> | <u>\$ 195,976</u> | <u>\$ 1,207,265</u> | <u>\$ -</u> | <u>\$ (25,613)</u> | <u>\$ 1,975,051</u> |
| BALANCE AT JANUARY 1, 2023 | \$ 272,257 | \$ 325,166 | \$ 195,976 | \$ 1,289,748 | \$ - | \$ (21,938) | \$ 2,061,209 |
| Appropriation of 2022 earnings (Note 17) | | | | | | | |
| Legal reserve | - | - | 40,645 | (40,645) | - | - | - |
| Cash dividends distributed by the Company | - | - | - | (204,192) | - | - | (204,192) |
| Share-based payment transactions (Notes 17 and 22) | (80) | (1,416) | - | - | - | 11,274 | 9,778 |
| Net profit for the nine months ended September 30, 2023 | - | - | - | 273,893 | - | - | 273,893 |
| Other comprehensive income for the nine months ended September 30, 2023 net of income tax (Note 17) | - | - | - | - | 223 | - | 223 |
| Total comprehensive income for the nine months ended September 30, 2023 | - | - | - | 273,893 | 223 | - | 274,116 |
| BALANCE AT SEPTEMBER 30, 2023 | <u>\$ 272,177</u> | <u>\$ 323,750</u> | <u>\$ 236,621</u> | <u>\$ 1,318,804</u> | <u>\$ 223</u> | <u>\$ (10,664)</u> | <u>\$ 2,140,911</u> |

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

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

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

| | For the Nine Months Ended September 30 | |
|--|---|------------------|
| | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 349,422 | \$ 418,137 |
| Adjustments for: | | |
| Depreciation expense | 42,367 | 37,464 |
| Amortization expense | 8,430 | 14,041 |
| Expected credit loss reversed on trade receivables | 20,120 | 8,788 |
| Finance costs | 349 | 141 |
| Interest income | (14,867) | (463) |
| Gain arising from lease modifications | (32) | - |
| Compensation costs of employee share options | 9,778 | 2,437 |
| Write-downs of inventories | 15,779 | 13,210 |
| Net gain on foreign currency exchange | (32,438) | (73,700) |
| Changes in operating assets and liabilities | | |
| Notes receivable | - | 322 |
| Trade receivables | (80,466) | (91,685) |
| Inventories | 111,821 | (13,159) |
| Prepayments | 122 | (3,740) |
| Contract liabilities | (36,296) | 53,056 |
| Notes payable | 140 | - |
| Trade payables | (1,588) | 21,608 |
| Other payables | (20,343) | 23,827 |
| Other current liabilities | <u>1,954</u> | <u>3,108</u> |
| Cash generated from operations | 374,252 | 413,392 |
| Interest received | 14,867 | 463 |
| Interest paid | (349) | (141) |
| Income tax paid | <u>(84,751)</u> | <u>(124,280)</u> |
| Net cash generated from operating activities | <u>304,019</u> | <u>289,434</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of financial assets at amortized cost | - | 21,940 |
| Payments for property, plant and equipment | (12,416) | (29,864) |
| Increase in refundable deposits | (2,442) | (386) |
| Decrease in refundable deposits | 3,157 | 42 |
| Payments for intangible assets | (8,138) | (10,610) |
| Increase in prepayments for equipment | <u>(3,112)</u> | <u>(10,555)</u> |
| Net cash used in investing activities | <u>(22,951)</u> | <u>(29,433)</u> |

(Continued)

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

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

| | For the Nine Months Ended September 30 | |
|---|---|---------------------|
| | 2023 | 2022 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of the principal portion of lease liabilities | \$ (6,481) | \$ (4,018) |
| Cash dividends | <u>(204,192)</u> | <u>(211,190)</u> |
| Net cash used in financing activities | <u>(210,673)</u> | <u>(215,208)</u> |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES | <u>33,248</u> | <u>74,138</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 103,643 | 118,931 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | <u>1,181,605</u> | <u>967,597</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD | <u>\$ 1,285,248</u> | <u>\$ 1,086,528</u> |

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

(Concluded)

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Keystone Microtech Corporation (the “Company”), which was established under the Company Law on September 4, 2006, is engaged in the manufacture and sale of various circuit testing solutions for semiconductors, including IC front-end test solutions (probe cards and substrates), IC back-end test solutions (load boards and burn-in boards) and other related testing boards.

The Company’s shares have been listed on the Taipei Exchange since April 2019.

On March 9, 2020, the Company’s board of directors approved a short-form merger with Relight Technology Corporation, a 100%-owned subsidiary of the Company, in accordance with the provisions of Business Mergers and Acquisitions Act with the Company as the surviving company and Relight Technology Corporation as the dissolved company. Relight Technology Corporation’s main business is the wholesale of electronic materials while its legal rights and obligations are assumed by the Company after the merger.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors on November 3, 2023.

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

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

The application of the amendments to the IFRSs endorsed and issued into effect by the FSC did not have a material impact on the accounting policies of the Company and its subsidiaries (collectively, the “Group”).

- b. The IFRSs endorsed by the FSC for application starting from 2024

| <u>New, Amended and Revised Standards and Interpretations</u> | <u>Effective Date Announced by IASB (Note 1)</u> |
|---|--|
| Amendments to IFRS 16 “Leases Liability in a Sale and Leaseback” | January 1, 2024 (Note 2) |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” | January 1, 2024 |
| Amendments to IAS 1 “Non-current Liabilities with Covenants” | January 1, 2024 |
| Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements” | January 1, 2024 (Note 3) |

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

Note 2: A seller-lessee shall apply the Amendments to IFRS 16 retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16.

Note 3: The amendments provide some transition relief regarding disclosure requirements.

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

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

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

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

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

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

4. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

- a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. Historical costs are generally determined by the fair value of the payment for asset acquisition.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e., its subsidiaries). Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Notes 9, Tables 1 and 2 for the detailed information of subsidiaries (including percentages of ownership and main businesses).

d. Other material accounting policies

Except for the following, please refer to the financial statements for the year ended December 31, 2022.

1) Foreign currencies

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

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

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

For the purpose of presenting the consolidated financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries, associates, joint ventures and branches in other countries that use currencies different from the currency of the Company) are translated into the presentation currency - the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

2) Income tax expense

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

3) Deferred tax

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

5. MATERIAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

When developing material accounting estimates, the Group considers the possible impact of inflation and volatility in interest markets on the cash flow projection, growth rates, discount rates, profitabilities and other relevant material estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

6. CASH AND CASH EQUIVALENTS

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|---|-----------------------|----------------------|-----------------------|
| Checking accounts and demand deposits | \$ 733,468 | \$ 713,795 | \$ 1,086,528 |
| Cash equivalents (investments with original maturities of 3 months or less) | | | |
| Time deposits | <u>551,780</u> | <u>467,810</u> | <u>-</u> |
| | <u>\$ 1,285,248</u> | <u>\$ 1,181,605</u> | <u>\$ 1,086,528</u> |

The interest rates intervals of cash in bank at the end of the reporting period were as follows:

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|-----------------|-----------------------|----------------------|-----------------------|
| Demand deposits | 0.001%-5.000% | 0.001%-4.500% | 0.001%-0.700% |

7. TRADE RECEIVABLES

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|-------------------------------------|-----------------------|----------------------|-----------------------|
| <u>Trade receivables</u> | | | |
| At amortized cost | | | |
| Gross carrying amount | \$ 297,275 | \$ 218,304 | \$ 278,640 |
| Less: Allowance for impairment loss | <u>(23,522)</u> | <u>(3,402)</u> | <u>(9,382)</u> |
| | <u>\$ 273,753</u> | <u>\$ 214,902</u> | <u>\$ 269,258</u> |

Trade Receivables

The average credit period of sales of goods is 30 to 120 days after the end of the month.

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

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are estimated using a provision matrix approach considering past experiences, current market conditions, and forward-looking information. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

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

September 30, 2023

| | Not Past Due | Past Due | | | | | | Total | |
|--------------------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------|-------------------|
| | | Less than 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 120 Days | 121 to 150 Days | 151 to 180 Days | | Over 180 Days |
| Expected credit loss rate | 0.03% | 0.17% | 0.61% | 1.25% | 2.28% | 5.56% | 23.90% | 100% | |
| Gross carrying amount | \$ 203,708 | \$ 57,963 | \$ 5,619 | \$ 5,027 | \$ 1,070 | \$ 688 | \$ - | \$ 23,200 | \$ 297,275 |
| Loss allowance (Lifetime ECLs) | (63) | (100) | (34) | (63) | (24) | (38) | - | (23,200) | (23,522) |
| Amortized cost | <u>\$ 203,645</u> | <u>\$ 57,863</u> | <u>\$ 5,585</u> | <u>\$ 4,964</u> | <u>\$ 1,046</u> | <u>\$ 650</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 273,753</u> |

December 31, 2022

| | Not Past Due | Past Due | | | | | | Total | |
|--------------------------------|-------------------|-------------------|------------------|---------------|-----------------|-----------------|-----------------|-------------|-------------------|
| | | Less than 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 120 Days | 121 to 150 Days | 151 to 180 Days | | Over 180 Days |
| Expected credit loss rate | 0.02% | 0.11% | 0.50% | 1.35% | 2.55% | 6.82% | 26.91% | 100% | |
| Gross carrying amount | \$ 164,755 | \$ 27,037 | \$ 14,573 | \$ - | \$ 8,894 | \$ - | \$ - | \$ 3,045 | \$ 218,304 |
| Loss allowance (Lifetime ECLs) | (27) | (30) | (73) | - | (227) | - | - | (3,045) | (3,402) |
| Amortized cost | <u>\$ 164,728</u> | <u>\$ 27,007</u> | <u>\$ 14,500</u> | <u>\$ -</u> | <u>\$ 8,667</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 214,902</u> |

September 30, 2022

| | Not Past Due | Past Due | | | | | | | Total |
|--------------------------------|-------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-------------------|
| | | Less than 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 120 Days | 121 to 150 Days | 151 to 180 Days | Over 180 Days | |
| Expected credit loss rate | 0.01% | 0.10% | 0.47% | 1.44% | 2.64% | 5.74% | 22.65% | 100% | |
| Gross carrying amount | \$ 192,429 | \$ 59,786 | \$ 6,637 | \$ 2,832 | \$ 7,360 | \$ 604 | \$ - | \$ 8,992 | \$ 278,640 |
| Loss allowance (Lifetime ECLs) | (25) | (63) | (31) | (41) | (195) | (35) | - | (8,992) | (9,382) |
| Amortized cost | <u>\$ 192,404</u> | <u>\$ 59,723</u> | <u>\$ 6,606</u> | <u>\$ 2,791</u> | <u>\$ 7,165</u> | <u>\$ 569</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 269,258</u> |

The movements of the loss allowance of trade receivables were as follows:

| | For the Nine Months Ended September 30 | |
|--|---|-----------------|
| | 2023 | 2022 |
| Balance at January 1 | \$ 3,402 | \$ 594 |
| Add: Net remeasurement of loss allowance | <u>20,120</u> | <u>8,788</u> |
| Balance at September 30 | <u>\$ 23,522</u> | <u>\$ 9,382</u> |

8. INVENTORIES

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|--|-----------------------|----------------------|-----------------------|
| Finished goods (including storage inventories awaiting acceptance) | \$ 313,100 | \$ 406,932 | \$ 433,262 |
| Work in progress | 4,489 | 19,385 | 8,034 |
| Semi-finished goods | 13,209 | 9,077 | 30,021 |
| Raw materials | <u>82,057</u> | <u>105,061</u> | <u>109,994</u> |
| | <u>\$ 412,855</u> | <u>\$ 540,455</u> | <u>\$ 581,311</u> |

The nature of the cost of goods sold is as follows:

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--------------------------|--|-------------------|---|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Cost of inventories sold | \$ 169,061 | \$ 208,541 | \$ 518,299 | \$ 578,337 |
| Inventory write-downs | <u>3,513</u> | <u>9,703</u> | <u>15,779</u> | <u>13,210</u> |
| | <u>\$ 172,574</u> | <u>\$ 218,244</u> | <u>\$ 534,078</u> | <u>\$ 591,547</u> |

9. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements

| Investor | Investee | Nature of Activities | Proportion of Ownership (%) | | | Remark |
|--------------------------------------|--|---|-----------------------------|-------------------|--------------------|--------|
| | | | September 30, 2023 | December 31, 2022 | September 30, 2022 | |
| The Company | KEYSTONE MICROTECH International Ltd | General investment business | 100 | - | - | 1 |
| KEYSTONE MICROTECH International Ltd | SHANGHAI XINCHENG TECHNOLOGY CO., LTD. | Sales of semiconductor test components and provision of technical consultation and technical services | 100 | - | - | 2 |

Note 1: On March 23, 2023, the Company participated in a cash capital increase of US\$600 thousand in KEYSTONE MICROTECH International Ltd.

Note 2: On March 24, 2023, KEYSTONE MICROTECH International Ltd. participated in a cash capital increase of US\$590 thousand in SHANGHAI XINCHENG TECHNOLOGY CO., LTD.

10. PROPERTY, PLANT AND EQUIPMENT

Assets Used by the Group

| | Freehold Land | Buildings | Machinery and Equipment | Office Equipment | Transportation | Other Equipment | Total |
|--|-------------------|-------------------|-------------------------|------------------|----------------|-----------------|-------------------|
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2023 | \$ 217,232 | \$ 168,635 | \$ 212,897 | \$ 31,969 | \$ 500 | \$ 1,898 | \$ 633,131 |
| Additions | - | 6,123 | 4,941 | 2,151 | - | - | 13,215 |
| Disposals | - | - | - | (373) | - | - | (373) |
| Reclassified (Note) | - | 1,867 | 10,813 | - | - | - | 12,680 |
| Balance at September 30, 2023 | <u>\$ 217,232</u> | <u>\$ 176,625</u> | <u>\$ 228,651</u> | <u>\$ 33,747</u> | <u>\$ 500</u> | <u>\$ 1,898</u> | <u>\$ 658,653</u> |
| <u>Accumulated depreciation</u> | | | | | | | |
| Balance at January 1, 2023 | \$ - | \$ 30,918 | \$ 116,609 | \$ 24,538 | \$ 500 | \$ 1,551 | \$ 174,116 |
| Depreciation expense | - | 5,888 | 26,474 | 3,545 | - | 197 | 36,104 |
| Disposals | - | - | - | (373) | - | - | (373) |
| Balance at September 30, 2023 | <u>\$ -</u> | <u>\$ 36,806</u> | <u>\$ 143,083</u> | <u>\$ 27,710</u> | <u>\$ 500</u> | <u>\$ 1,748</u> | <u>\$ 209,847</u> |
| Carrying amount at September 30, 2023 | <u>\$ 217,232</u> | <u>\$ 139,819</u> | <u>\$ 85,568</u> | <u>\$ 6,037</u> | <u>\$ -</u> | <u>\$ 150</u> | <u>\$ 448,806</u> |
| Carrying amount at December 31, 2022 and January 1, 2023 | <u>\$ 217,232</u> | <u>\$ 137,717</u> | <u>\$ 96,288</u> | <u>\$ 7,431</u> | <u>\$ -</u> | <u>\$ 347</u> | <u>\$ 459,015</u> |
| <u>Cost</u> | | | | | | | |
| Balance at January 1, 2022 | \$ 217,232 | \$ 166,164 | \$ 178,504 | \$ 25,795 | \$ 500 | \$ 1,898 | \$ 590,093 |
| Additions | - | 2,471 | 18,986 | 4,978 | - | - | 26,435 |
| Disposals | - | - | - | (175) | - | - | (175) |
| Reclassified (Note) | - | - | 11,929 | - | - | - | 11,929 |
| Balance at September 30, 2022 | <u>\$ 217,232</u> | <u>\$ 168,635</u> | <u>\$ 209,419</u> | <u>\$ 30,598</u> | <u>\$ 500</u> | <u>\$ 1,898</u> | <u>\$ 628,282</u> |
| <u>Accumulated depreciation</u> | | | | | | | |
| Balance at January 1, 2022 | \$ - | \$ 23,466 | \$ 84,764 | \$ 19,370 | \$ 500 | \$ 1,246 | \$ 129,346 |
| Depreciation expense | - | 5,561 | 23,520 | 4,112 | - | 236 | 33,429 |
| Disposals | - | - | - | (175) | - | - | (175) |
| Balance at September 30, 2022 | <u>\$ -</u> | <u>\$ 29,027</u> | <u>\$ 108,284</u> | <u>\$ 23,307</u> | <u>\$ 500</u> | <u>\$ 1,482</u> | <u>\$ 162,600</u> |
| Carrying amount at September 30, 2022 | <u>\$ 217,232</u> | <u>\$ 139,608</u> | <u>\$ 101,135</u> | <u>\$ 7,291</u> | <u>\$ -</u> | <u>\$ 416</u> | <u>\$ 465,682</u> |

Note: Reclassified from prepayments for equipment to property, plant and equipment.

No impairment loss or reversal of impairment loss was recognized for the nine months ended September 30, 2023 and 2022.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---------------------------|-------------|
| Buildings | |
| Main buildings | 50 years |
| Construction appurtenance | 10-20 years |
| Machinery and equipment | 1-9 years |
| Office equipment | 1-5 years |
| Transportation | 5 years |
| Other equipment | 3 years |

11. LEASE ARRANGEMENTS

a. Right-of-use assets

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|--|--|---|-----------------------|
| <u>Carrying amount</u> | | | |
| Buildings | \$ 5,826 | \$ 3,968 | \$ 4,811 |
| Transportation equipment | <u>4,949</u> | <u>3,091</u> | <u>3,937</u> |
| | <u>\$ 10,775</u> | <u>\$ 7,059</u> | <u>\$ 8,748</u> |
| | For the Three Months Ended September 30 | For the Nine Months Ended September 30 | |
| | 2023 | 2022 | 2023 |
| | 2022 | 2023 | 2022 |
| Additions to right-of-use assets | | <u>\$ 11,205</u> | <u>\$ 5,895</u> |
| Depreciation charge for right-of-use assets | | | |
| Buildings | \$ 1,157 | \$ 759 | \$ 3,231 |
| Transportation equipment | <u>792</u> | <u>846</u> | <u>2,462</u> |
| | <u>\$ 1,949</u> | <u>\$ 1,605</u> | <u>\$ 6,263</u> |
| | <u>\$ 1,949</u> | <u>\$ 1,605</u> | <u>\$ 6,263</u> |

Except for the aforementioned addition and recognized depreciation, the Group did not have significant sublease or impairment of right-of-use assets during the nine months ended September 30, 2023 and 2022.

b. Lease liabilities

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|------------------------|-------------------------------|------------------------------|-------------------------------|
| <u>Carrying amount</u> | | | |
| Current | <u>\$ 6,801</u> | <u>\$ 4,318</u> | <u>\$ 5,140</u> |
| Non-current | <u>\$ 3,841</u> | <u>\$ 2,843</u> | <u>\$ 3,719</u> |

Range of discount rates for lease liabilities was as follows:

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|--------------------------|-------------------------------|------------------------------|-------------------------------|
| Buildings | 2.366%-4.300% | 2.366%-2.741% | 2.366%-2.741% |
| Transportation equipment | 2.366%-2.992% | 2.366%-2.616% | 2.366%-2.616% |

c. Material lease-in activities and terms

The Group leases buildings for the use of offices with lease term of 2 years. The Group does not have bargain purchase options to acquire buildings at the end of the lease term. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

The Group also leases transportation equipment for use in operations with lease term of 3 years. The Group does not have bargain purchase options to acquire vehicles at the end of the lease term. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|--------------|---|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Expenses relating to short-term leases | <u>\$ 27</u> | <u>\$ 45</u> | <u>\$ 82</u> | <u>\$ 150</u> |
| Expenses relating to low-value asset leases | <u>\$ 98</u> | <u>\$ 74</u> | <u>\$ 360</u> | <u>\$ 194</u> |
| Total cash outflow for leases | | | <u>\$ (7,272)</u> | <u>\$ (4,503)</u> |

The Group leases certain buildings which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

As of September 30, 2023, December 31, 2022 and September 30, 2022, the amount of short-term lease commitments for which the recognition exemption was applied was \$122 thousand, \$107 thousand and \$37 thousand, respectively.

12. OTHER INTANGIBLE ASSETS

| | Computer Software |
|--|------------------------------|
| <u>Cost</u> | |
| Balance at January 1, 2023 | \$ 97,810 |
| Additions | 7,186 |
| Disposal | <u>(59,438)</u> |
| Balance at September 30, 2023 | <u>\$ 45,558</u> |
| <u>Accumulated amortization and impairment</u> | |
| Balance at January 1, 2023 | \$ 88,764 |
| Amortization expense | 8,430 |
| Disposal | <u>(59,438)</u> |
| Balance at September 30, 2023 | <u>\$ 37,756</u> |
| Carrying amount at September 30, 2023 | <u>\$ 7,802</u> |
| Carrying amount at December 31, 2022 and January 1, 2023 | <u>\$ 9,046</u> |
| <u>Cost</u> | |
| Balance at January 1, 2022 | \$ 86,939 |
| Additions | 10,610 |
| Disposal | <u>(924)</u> |
| Balance at September 30, 2022 | <u>\$ 96,625</u> |
| <u>Accumulated amortization and impairment</u> | |
| Balance at January 1, 2022 | \$ 71,141 |
| Amortization expense | 14,041 |
| Disposal | <u>(924)</u> |
| Balance at September 30, 2022 | <u>\$ 84,258</u> |
| Carrying amount at September 30, 2022 | <u>\$ 12,367</u> |

The computer software is amortized on a straight-line basis over their estimated useful lives of 1 to 6 years.

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|-----------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| An analysis of amortization by function | | | | |
| Operating costs | \$ 151 | \$ 179 | \$ 451 | \$ 535 |
| General and administrative expenses | 410 | 588 | 1,506 | 1,777 |
| Research and development expenses | <u>2,289</u> | <u>3,869</u> | <u>6,473</u> | <u>11,729</u> |
| | <u>\$ 2,850</u> | <u>\$ 4,636</u> | <u>\$ 8,430</u> | <u>\$ 14,041</u> |

13. OTHER ASSETS

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|---------------------------|-----------------------|----------------------|-----------------------|
| <u>Current</u> | | | |
| Prepayments | \$ <u>9,624</u> | \$ <u>9,746</u> | \$ <u>11,486</u> |
| <u>Non-current</u> | | | |
| Prepayments for equipment | \$ 3,154 | \$ 12,722 | \$ 10,555 |
| Refundable deposits | <u>4,117</u> | <u>4,832</u> | <u>4,464</u> |
| | \$ <u>7,271</u> | \$ <u>17,554</u> | \$ <u>15,019</u> |

14. NOTES PAYABLE AND TRADE PAYABLES

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|-----------------------|-----------------------|----------------------|-----------------------|
| <u>Notes payable</u> | | | |
| Operating | \$ <u>140</u> | \$ <u>-</u> | \$ <u>-</u> |
| <u>Trade payables</u> | | | |
| Operating | \$ <u>77,741</u> | \$ <u>80,252</u> | \$ <u>135,068</u> |

The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

15. OTHER LIABILITIES

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|---|-----------------------|----------------------|-----------------------|
| <u>Current</u> | | | |
| Other payables | | | |
| Payables for salaries and bonuses | \$ 110,787 | \$ 128,276 | \$ 148,423 |
| Payables for insurance | 4,532 | 4,168 | 4,310 |
| Payables for pensions | 3,032 | 2,915 | 2,881 |
| Payables for purchases of equipment | 2,797 | 1,998 | 1,019 |
| Payables for purchases of computer software | 292 | 1,244 | - |
| Others | <u>3,258</u> | <u>6,593</u> | <u>5,966</u> |
| | \$ <u>124,698</u> | \$ <u>145,194</u> | \$ <u>162,599</u> |
| Other liabilities | | | |
| Receipts under custody | \$ <u>3,016</u> | \$ <u>1,062</u> | \$ <u>3,908</u> |

16. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

The Group has a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

17. EQUITY

a. Share capital

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|---|-----------------------|----------------------|-----------------------|
| Number of shares authorized (in thousands) | <u>36,000</u> | <u>36,000</u> | <u>36,000</u> |
| Shares authorized | <u>\$ 360,000</u> | <u>\$ 360,000</u> | <u>\$ 360,000</u> |
| Number of shares issued and fully paid (in thousands) | <u>27,218</u> | <u>27,226</u> | <u>27,226</u> |
| Shares issued | <u>\$ 272,177</u> | <u>\$ 272,257</u> | <u>\$ 272,257</u> |

On August 7, 2023, the board of directors approved the withdrawal of restricted shares. The Company withdrew \$80 thousand, 8 thousand shares, with a par value of \$10, with August 7, 2023 as the effective date of reduction, and where the approval of the Ministry of Economic Affairs (MOEA) was obtained on August 17, 2023.

A reconciliation of the number of shares outstanding was as follows:

| | Number of Shares (In Thousands of Shares) | Share Capital |
|---|--|-------------------|
| Balance at January 1, 2023 | \$ 27,226 | \$ 272,257 |
| Retirement of recognized employee restricted shares (Note 22) | <u>(8)</u> | <u>(80)</u> |
| Balance at September 30, 2023 | <u>\$ 27,218</u> | <u>\$ 272,177</u> |
| Balance at January 1, 2022 | 27,076 | \$ 270,757 |
| Issued employee restricted shares (Note 22) | <u>150</u> | <u>1,500</u> |
| Balance at September 30, 2022 | <u>\$ 27,226</u> | <u>\$ 272,257</u> |

b. Capital surplus

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|--|-----------------------|----------------------|-----------------------|
| May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note 1) | | | |
| Premium from issuance ordinary shares | \$ 277,535 | \$ 277,535 | \$ 277,535 |
| Treasury share transactions | 6,923 | 6,923 | 6,923 |
| Premium from converting employee share option | 1,682 | 1,682 | 1,682 |
| Premium from employee restricted shares | 7,013 | - | - |
| <u>May be used to offset a deficit (Note 2)</u> | | | |
| Disgorgement exercise | 12,476 | 12,476 | 12,476 |
| <u>May not be used for any purpose</u> | | | |
| Employee restricted shares | <u>18,121</u> | <u>26,550</u> | <u>26,550</u> |
| | <u>\$ 323,750</u> | <u>\$ 325,166</u> | <u>\$ 325,166</u> |

Note 1: Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends, or transferred to share capital limited to a certain percentage of the Company's capital surplus and to once a year.

Note 2: Such capital surplus arises from when the right of disgorgement is exercised that may be used to offset a deficit.

A reconciliation of the capital surplus was as follows:

| | Premium from Issuance Ordinary Shares | Premium from Employee Restricted Shares | Treasury Share Transactions | Premium from Converting Employee Share Option | Disgorgement Exercise | Employee Restricted Shares | Total |
|--|--|---|-----------------------------------|---|--------------------------|----------------------------------|-------------------|
| Balance at January 1, 2023 | \$ 277,535 | \$ - | \$ 6,923 | \$ 1,682 | \$ 12,476 | \$ 26,550 | \$ 325,166 |
| Vested employee restricted shares | - | 7,013 | - | - | - | (7,013) | - |
| Retirement of recognized employee restricted shares (Note) | - | - | - | - | - | (1,416) | (1,416) |
| Balance at September 30, 2023 | <u>\$ 277,535</u> | <u>\$ 7,013</u> | <u>\$ 6,923</u> | <u>\$ 1,682</u> | <u>\$ 12,476</u> | <u>\$ 18,121</u> | <u>\$ 323,750</u> |
| Balance at January 1, 2022 | \$ 277,535 | \$ - | \$ 6,923 | \$ 1,682 | \$ 12,476 | \$ - | \$ 298,616 |
| Issued employee restricted shares | - | - | - | - | - | 26,550 | 26,550 |
| Balance at September 30, 2022 | <u>\$ 277,535</u> | <u>\$ -</u> | <u>\$ 6,923</u> | <u>\$ 1,682</u> | <u>\$ 12,476</u> | <u>\$ 26,550</u> | <u>\$ 325,166</u> |

Note: Reversal of compensation cost of the restricted shares amounted to \$1,496 thousand, net of retired share capital of \$80 thousand.

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the Articles, where the Company made a profit in a fiscal year, the profits shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit unless accumulated legal capital reserves have already reached the total capital of the Company, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. Refer to employees' compensation and remuneration of directors in Note 19 (f) for details.

As set forth in the Articles, the Company's policy on the distribution of dividends to shareholders is subject to the Company's current and future investment environment, future investment plans, financial structure and operating performance, with the interests of shareholders taken into account. The distribution of dividends shall not be less than 20% of the current total earnings (not including accumulated undistributed earnings), unless the current total earnings (not including unappropriated earnings) is less than 10% of the Company's paid-in capital. Dividends may be distributed in cash or shares, and cash dividends shall not be less than 10% of the total dividends distributed to shareholders in the current year.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve can be used to offset deficit. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2022 and 2021, which were approved in the shareholders' meeting on June 26, 2023 and June 27, 2022, respectively, were as follows:

| | For the Year Ended December 31 | |
|---------------------------------|---------------------------------------|-------------------|
| | 2022 | 2021 |
| Legal reserve | <u>\$ 40,645</u> | <u>\$ 41,970</u> |
| Cash dividends | <u>\$ 204,192</u> | <u>\$ 211,190</u> |
| Cash dividends per share (NT\$) | \$ 7.5 | \$ 7.8 |

d. Other equity

1) Exchange differences on the translation of the financial statements of foreign operations

| | For the Nine Months Ended | |
|---|----------------------------------|-------------|
| | September 30 | |
| | 2023 | 2022 |
| Balance at January 1 | \$ - | \$ - |
| Recognized for the period | | |
| Exchange differences on the translation of the financial statements of foreign operations | <u>223</u> | <u>-</u> |
| Balance at September 30 | <u>\$ 223</u> | <u>\$ -</u> |

2) Unearned employee benefits

In the shareholders' meetings on August 2, 2021, the shareholders approved the issuance of restricted shares to employees (refer to Note 22).

| | For the Nine Months Ended September 30 | |
|--|---|--------------------|
| | 2023 | 2022 |
| Balance at January 1 | \$ (21,938) | \$ - |
| Issuance of shares | - | (28,050) |
| Share-based payment expenses recognized | 9,778 | 2,437 |
| Adjustment for retired restricted employee shares (Note) | <u>1,496</u> | <u>-</u> |
| Balance at September 30 | <u>\$ (10,664)</u> | <u>\$ (25,613)</u> |

Note: Deducted from the compensation cost of restricted shares.

18. REVENUE

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------------------|--|-------------------|---|---------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue from contracts with customers | | | | |
| Revenue from sale of goods | <u>\$ 346,789</u> | <u>\$ 396,288</u> | <u>\$ 1,064,632</u> | <u>\$ 1,153,675</u> |

Contract balances

| | September 30, 2023 | December 31, 2022 | September 30, 2022 | January 1, 2022 |
|--------------------------------|-------------------------------|------------------------------|-------------------------------|----------------------------|
| Notes receivable (Note 7) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 322</u> |
| Trade receivables (Note 7) | <u>\$ 273,753</u> | <u>\$ 214,902</u> | <u>\$ 269,258</u> | <u>\$ 183,571</u> |
| Contract liabilities - current | | | | |
| Sale of goods | <u>\$ 84,364</u> | <u>\$ 120,660</u> | <u>\$ 153,102</u> | <u>\$ 100,046</u> |

The change in contract liabilities is mainly due to the difference between the point at which the performance obligation is satisfied and the point at which the customer pays.

Revenue recognized in the current reporting period from contract liabilities at the beginning of the year was as follows:

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|-----------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Contract liabilities at the beginning of the year sale of goods | <u>\$ 38,159</u> | <u>\$ 5,486</u> | <u>\$ 113,755</u> | <u>\$ 97,526</u> |

19. NET PROFIT

a. Interest income

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------------------|--|-------------|---|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Bank deposits | \$ 5,130 | \$ - | \$ 14,841 | \$ 353 |
| Financial assets at amortized cost | - | - | - | 92 |
| Others | <u>5</u> | <u>6</u> | <u>26</u> | <u>18</u> |
| | <u>\$ 5,135</u> | <u>\$ 6</u> | <u>\$ 14,867</u> | <u>\$ 463</u> |

b. Other gains and (losses)

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|------------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net foreign exchange gains | \$ 37,709 | \$ 35,588 | \$ 35,418 | \$ 77,424 |
| Gain (losses) arising from lease modifications | (27) | - | 32 | - |
| Others | <u>(98)</u> | <u>(124)</u> | <u>(175)</u> | <u>(206)</u> |
| | <u>\$ 37,584</u> | <u>\$ 35,464</u> | <u>\$ 35,275</u> | <u>\$ 77,218</u> |

c. Finance costs

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|-------------------------------|--|--------------|---|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Interest on lease liabilities | <u>\$ 35</u> | <u>\$ 56</u> | <u>\$ 349</u> | <u>\$ 141</u> |

d. Depreciation and amortization

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|--|--|------------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| An analysis of depreciation by function | | | | |
| Operating costs | \$ 8,796 | \$ 8,091 | \$ 26,176 | \$ 23,767 |
| Operating expenses | <u>5,136</u> | <u>4,886</u> | <u>16,191</u> | <u>13,697</u> |
| | <u>\$ 13,932</u> | <u>\$ 12,977</u> | <u>\$ 42,367</u> | <u>\$ 37,464</u> |
| An analysis of amortization by function | | | | |
| Operating costs | \$ 151 | \$ 179 | \$ 451 | \$ 535 |
| Operating expenses | <u>2,699</u> | <u>4,457</u> | <u>7,979</u> | <u>13,506</u> |
| | <u>\$ 2,850</u> | <u>\$ 4,636</u> | <u>\$ 8,430</u> | <u>\$ 14,041</u> |

e. Employee benefits expense

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|------------------|---|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Short-term benefits | \$ 73,343 | \$ 72,146 | \$ 211,490 | \$ 215,416 |
| Post-employment benefits | | | | |
| Defined contribution plans | 2,899 | 2,575 | 8,287 | 7,455 |
| Other employee benefits | 8,908 | 8,242 | 26,725 | 24,176 |
| Equity-settled share-based payments | <u>2,507</u> | <u>2,437</u> | <u>9,778</u> | <u>2,437</u> |
| Total employee benefits expense | <u>\$ 87,657</u> | <u>\$ 85,400</u> | <u>\$ 256,280</u> | <u>\$ 249,484</u> |
| An analysis of employee benefits expense by function | | | | |
| Operating costs | \$ 44,790 | \$ 41,460 | \$ 128,048 | \$ 120,786 |
| Operating expenses | <u>42,867</u> | <u>43,940</u> | <u>128,232</u> | <u>128,698</u> |
| | <u>\$ 87,657</u> | <u>\$ 85,400</u> | <u>\$ 256,280</u> | <u>\$ 249,484</u> |

f. Compensation of employees and remuneration of directors

According to the Articles of Incorporation of the Company, the Company accrued compensation of employees and remuneration of directors at rates no less than 10% and no higher than 1%, respectively, of net profit before income tax, compensation of employees, and remuneration of directors. For the three months ended and the nine months ended September 30, 2023 and 2022, the compensation of employees and remuneration of directors are as follows:

Accrual rate

| | For the Nine Months Ended September 30 | |
|---------------------------|---|-------------|
| | 2023 | 2022 |
| Compensation of employees | 10.02% | 10.30% |
| Remuneration of directors | 0.23% | 0.19% |

Amount

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------|--|------------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Compensation of employees | <u>\$ 14,100</u> | <u>\$ 15,700</u> | <u>\$ 39,000</u> | <u>\$ 48,100</u> |
| Remuneration of directors | <u>\$ 300</u> | <u>\$ 300</u> | <u>\$ 900</u> | <u>\$ 900</u> |

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

The appropriations of compensation of employees and remuneration of directors for 2022 and 2021 that were resolved by the board of directors on March 6, 2023 and March 7, 2022, respectively, are as shown below:

| | For the Year Ended December 31 | | | |
|---------------------------|---------------------------------------|---------------|------------------|---------------|
| | 2022 | | 2021 | |
| | Cash | Shares | Cash | Shares |
| Compensation of employees | <u>\$ 60,105</u> | <u>\$ -</u> | <u>\$ 61,230</u> | <u>\$ -</u> |
| Remuneration of directors | <u>\$ 1,400</u> | <u>\$ -</u> | <u>\$ 1,470</u> | <u>\$ -</u> |

There is no difference between the actual amounts of compensation of employees and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2022 and 2021.

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

g. Gain or loss on foreign currency exchange

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|-------------------------|--|------------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | Foreign exchange gains | \$ 37,709 | \$ 35,588 | \$ 56,369 |
| Foreign exchange losses | <u>-</u> | <u>-</u> | <u>(20,951)</u> | <u>(14,970)</u> |
| Net gains | <u>\$ 37,709</u> | <u>\$ 35,588</u> | <u>\$ 35,418</u> | <u>\$ 77,424</u> |

20. INCOME TAX EXPENSE

a. Income tax recognized in profit or loss

Major components of income tax expense are as follows:

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|------------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | Current tax | | | |
| In respect of the current period | \$ 22,664 | \$ 22,869 | \$ 70,143 | \$ 72,862 |
| Income tax on unappropriated earnings | (436) | (462) | 6,541 | 5,878 |
| Adjustments for prior year | <u>-</u> | <u>-</u> | <u>(114)</u> | <u>4,663</u> |
| | <u>22,228</u> | <u>22,407</u> | <u>76,570</u> | <u>83,403</u> |
| Deferred tax | | | | |
| In respect of the current period | <u>3,479</u> | <u>3,181</u> | <u>(1,041)</u> | <u>10,766</u> |
| Income tax expense recognized in profit or loss | <u>\$ 25,707</u> | <u>\$ 25,588</u> | <u>\$ 75,529</u> | <u>\$ 94,169</u> |

b. Income tax assessments

The Company's income tax returns through 2021 have been assessed by the tax authorities. As of September 30, 2023, the Group has no unsettled tax litigation.

21. EARNINGS PER SHARE

Unit: NT\$ Per Share

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|----------------------------|--|----------------|---|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Basic earnings per share | <u>\$ 3.87</u> | <u>\$ 3.87</u> | <u>\$ 10.11</u> | <u>\$ 11.97</u> |
| Diluted earnings per share | <u>\$ 3.84</u> | <u>\$ 3.83</u> | <u>\$ 10.00</u> | <u>\$ 11.82</u> |

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

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---------------------------|--|-------------------|---|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net profit for the period | <u>\$ 104,945</u> | <u>\$ 104,660</u> | <u>\$ 273,893</u> | <u>\$ 323,968</u> |

Number of Shares

Unit: Thousand Shares

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|---------------|---|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Weighted average number of ordinary shares used in the computation of basic earnings per share (in thousands) | 27,103 | 27,076 | 27,085 | 27,076 |
| Effect of potentially dilutive ordinary shares | | | | |
| Employees' compensation or bonuses issued to employees | 199 | 266 | 267 | 326 |
| Restricted employee share options | <u>38</u> | <u>17</u> | <u>46</u> | <u>6</u> |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share (in thousands) | <u>27,340</u> | <u>27,359</u> | <u>27,398</u> | <u>27,408</u> |

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

22. SHARE-BASED PAYMENT ARRANGEMENTS - RESTRICTED SHARE PLAN FOR EMPLOYEES

On August 2, 2021, the shareholders approved a restricted share plan for employees with a total amount of \$1,500 thousand, consisting of 150 thousand shares. The subscription base date of July 27, 2022 was determined by the board of directors on July 21, 2022. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:

- a. The employees who acquire the restricted shares (including share dividends) under the Regulation but have not met the vesting conditions should provide the shares to the agency designated by the Company acting as the trust custodian and cooperate in complying with all related procedures and preparing the required documents.
- b. In addition to the restrictions stipulated in the custody of the preceding paragraph, the employees who acquire the restricted shares (including share dividends) under the Regulation but have not met the vesting conditions except occurrence of inheritance due to this Regulation shall not sell, mortgage, transfer, donate, pledge or, in any other way, dispose of these shares (including share dividends).
- c. Employees who acquire the restricted shares but have not met the vesting conditions have other rights the same as those of ordinary shareholders of the Company, including but are not limited to the rights to receive dividends, bonuses and capital surplus in shares and to vote on cash increases by share issuance.
- d. The attendance proposals, speeches, voting rights and other equity-related matters at the shareholders' meeting of the Company are delegated to trust custody agencies before the vesting conditions are met.
- e. During the vested period, if the Company handles capital reduction not due to statutory capital reduction, the new shares with restricted employee rights shall be cancelled according to the capital reduction ratio. If the Company is handling cash capital reduction, the cash returned by the Company must be delivered to the trust and can only be delivered to the employees after the vested conditions are met. However, if the employees do not meet the vested conditions, the Company will recover such cash.

The vesting conditions of restricted shares are lift restrictions according to the following timeline and the proportion of restricted shares granted to the employees:

Still employed after one-year anniversary of the grant can obtain the following proportion of shares: 25%
Still employed after two-year anniversary of the grant can obtain the following proportion of shares: 25%
Still employed after three-year anniversary of the grant can obtain the following proportion of shares: 25%
Still employed after four-year anniversary of the grant can obtain the following proportion of shares: 25%

If an employee fails to meet the vesting conditions, the Company will withdraw the restricted shares (including share dividends).

The fair value of NT\$187 per share of the newly issued restricted shares was priced using the market-price-based method. The unearned employee benefit of \$28,050 thousand was recognized on the basis of vesting conditions and expensed on a straight-line base over the vesting period. Compensation costs of \$9,778 thousand and \$2,437 thousand were recognized, respectively, within the vesting period for the nine months ended September 30, 2023 and 2022.

Information on the restricted share plan for employees was as follows:

Number of Shares

| | For the Nine Months Ended September 30 | |
|-------------------------|---|-------------|
| | 2023 | 2022 |
| Balance at January 1 | 150 | - |
| Issuance of shares | - | 150 |
| Vested shares | (37) | - |
| Forfeited (Note) | <u>(8)</u> | <u>-</u> |
| Balance at September 30 | <u>105</u> | <u>150</u> |

Note: The forfeited shares for the nine months ended September 30, 2023 were the shares that were withdrawn due to the vesting conditions not being met.

23. CASH FLOWS INFORMATION

a. Non-cash transactions

In addition to those disclosed in other notes, the Group entered into the following non-cash investing activities which were not reflected in the statements of cash flows for the nine months ended September 30, 2023 and 2022:

- 1) As of September 30, 2023, December 31, 2022 and September 30, 2022, the unsettled payments for purchases of property, plant and equipment were \$2,797 thousand, \$1,998 thousand and \$1,019 thousand, respectively, and were recorded as other payables in the consolidated financial statements.
- 2) As of September 30, 2023, December 31, 2022 and September 30, 2022, the unsettled payments for purchases of intangible assets were \$292 thousand, \$1,244 thousand and \$0 thousand, respectively, and were recorded as other payables in the financial statements.

b. Changes in liabilities arising from financing activities

For the nine months ended September 30, 2023

| | Opening Balance | Cash Flows | <u>Non-cash Changes</u> | | | Others | Closing Balance |
|-------------------|--------------------|-------------------|-------------------------|------------------------|---------------------|-----------------|--------------------|
| | | | New Leases | Lease Modifications | Interest Expense | | |
| Lease liabilities | <u>\$ 7,161</u> | <u>\$ (6,481)</u> | <u>\$ 11,205</u> | <u>\$ (1,243)</u> | <u>\$ 349</u> | <u>\$ (349)</u> | <u>\$ 10,642</u> |

For the nine months ended September 30, 2022

| | Opening Balance | Cash Flows | <u>Non-cash Changes</u> | | | Others | Closing Balance |
|-------------------|--------------------|-------------------|-------------------------|------------------------|---------------------|-----------------|--------------------|
| | | | New Leases | Lease Modifications | Interest Expense | | |
| Lease liabilities | <u>\$ 6,982</u> | <u>\$ (4,018)</u> | <u>\$ 5,895</u> | <u>\$ -</u> | <u>\$ 141</u> | <u>\$ (141)</u> | <u>\$ 8,859</u> |

24. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities of the Group will be able to continue as going concerns while considering operating risks and maximizing the returns to shareholders through the optimization of the debt and equity balance. There were no significant changes in the Group's overall strategy.

The capital structure of the Group consists of equity of the Group (comprising share capital, capital reserve and retained earnings).

The Group is not subject to any externally imposed capital requirements.

Under the recommendations of the key management, to balance the overall capital structure, the Group may distribute dividends and adjust the number of new shares issued.

25. FINANCIAL INSTRUMENTS

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

Management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements which are not measured at fair value approximate their fair values.

b. Categories of financial instruments

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|---|-----------------------|----------------------|-----------------------|
| <u>Financial assets</u> | | | |
| Financial assets at amortized cost (1) | \$ 1,563,118 | \$ 1,401,339 | \$ 1,360,250 |
| <u>Financial liabilities</u> | | | |
| Financial liabilities at amortized cost (2) | 84,228 | 90,087 | 142,053 |

1) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, trade receivables, and refundable deposits (included in other non-current assets).

2) The balances include financial liabilities at amortized cost, which comprise notes payable trade payables and other payables (not including payables for salaries and bonuses, insurance and pensions) that are measured at amortized cost.

c. Financial risk management objectives and policies

The Group's major financial instruments included trade receivables, trade payables and lease liabilities. The Group's corporate treasury function provides services to the business, coordinates access to financial markets, and monitors and manages the financial risks relating to the operations of the Group through internal risk reports that analyze exposures by degree and magnitude of risks. These risks include market risk (currency risk and interest rate risk), credit risk and liquidity risk.

The corporate treasury function reports regularly to the board of directors, who monitors risks and policies implemented to mitigate risk exposures.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency-denominated monetary assets and monetary liabilities are set out in Note 28.

Sensitivity analysis

The Group was mainly exposed to the fluctuations in the USD and the RMB.

The following table details shows the Group's sensitivity to a 1% increase and decrease in the functional currencies of the entities of the Group against the relevant foreign currencies (the USD and RMB). A sensitivity rate of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency-denominated monetary items, and their translation was adjusted at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicated an increase in pretax profit when the functional currencies of the entities of the Group weakened by 1% against the relevant foreign currency. For a 1% strengthening of the functional currencies of the entities of the Group against the relevant foreign currency, there would be an equal and opposite impact on pretax profit and the balances below would be negative.

| | USD Impact | | RMB Impact | |
|----------------|----------------------------------|-------------|----------------------------------|-------------|
| | For the Nine Months Ended | | For the Nine Months Ended | |
| | September 30 | | September 30 | |
| | 2023 | 2022 | 2023 | 2022 |
| Profit or loss | \$ 6,315 | \$ 4,740 | \$ 4,154 | \$ 2,674 |

The above impact on profit and loss was mainly attributable to the exposure on USD bank deposits, USD receivables, USD payables, RMB bank deposits, RMB receivables and RMB payables at the end of the reporting period.

The Group's sensitivity to the USD increased during the current period mainly because of a decrease in USD trade payables. The Group's sensitivity to the RMB increased during the current period mainly because of an increased in RMB bank deposits.

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rate risks at the end of the reporting period were as follows:

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|----------------------------------|-----------------------|----------------------|-----------------------|
| Interest rate risk on fair value | | | |
| Financial assets | \$ 551,780 | \$ 467,810 | \$ - |
| Financial liabilities | 10,642 | 7,161 | 8,859 |
| Interest rate risk on cash flow | | | |
| Financial assets | 731,510 | 711,881 | 1,083,692 |

Sensitivity analysis

The sensitivity analysis in the next paragraph was based on the exposure of the Group's non-derivative instruments to interest rate risks at the end of the reporting period. A 100 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 100 basis points higher/lower and all other variables been held constant, the Group's pretax profit for the nine months ended September 30, 2023 and 2022 would have increased/decreased by \$5,486 thousand and \$8,128 thousand, respectively, which was mainly attributable to the Group's exposure to interest rate risks on its floating-rate bank deposits.

The Group's sensitivity to interest rates decreased during the current period mainly because of the decrease in floating-rate bank deposits.

2) Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties.

The Group's concentration of credit risk of 59%, 53% and 75% of total amounts of trade receivables as of September 30, 2023, December 31, 2022 and September 30, 2022, respectively, was attributable to the Group's ten largest customers.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

The following tables show the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables were based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

September 30, 2023

| | Less than 3 Months | 3 Months to 1 Year | Over 1 Year to 5 Years | More than 5 Years |
|---|-------------------------------|-------------------------------|-----------------------------------|------------------------------|
| <u>Non-derivative financial liabilities</u> | | | | |
| Non-interest bearing Lease liabilities | \$ 82,490 <u>1,938</u> | \$ 1,738 <u>5,170</u> | \$ - <u>4,023</u> | \$ - <u>-</u> |
| | <u>\$ 84,428</u> | <u>\$ 6,908</u> | <u>\$ 4,023</u> | <u>\$ -</u> |

December 31, 2022

| | Less than 3 Months | 3 Months to 1 Year | Over 1 Year to 5 Years | More than 5 Years |
|---|-------------------------------|-------------------------------|-----------------------------------|------------------------------|
| <u>Non-derivative financial liabilities</u> | | | | |
| Non-interest bearing Lease liabilities | \$ 89,149 <u>1,396</u> | \$ 938 <u>3,050</u> | \$ - <u>2,892</u> | \$ - <u>-</u> |
| | <u>\$ 90,545</u> | <u>\$ 3,988</u> | <u>\$ 2,892</u> | <u>\$ -</u> |

September 30, 2022

| | Less than 3 Months | 3 Months to 1 Year | Over 1 Year to 5 Years | More than 5 Years |
|---|-------------------------------|-------------------------------|-----------------------------------|------------------------------|
| <u>Non-derivative financial liabilities</u> | | | | |
| Non-interest bearing Lease liabilities | \$ 139,897 <u>1,750</u> | \$ 2,156 <u>3,548</u> | \$ - <u>3,790</u> | \$ - <u>-</u> |
| | <u>\$ 141,647</u> | <u>\$ 5,704</u> | <u>\$ 3,790</u> | <u>\$ -</u> |

Financing facilities

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|---------------------------------------|-------------------------------|------------------------------|-------------------------------|
| <u>Unsecured bank loan facilities</u> | | | |
| Amount used | \$ - | \$ - | \$ - |
| Amount unused | <u>111,816</u> | <u>110,556</u> | <u>-</u> |
| | <u>\$ 111,816</u> | <u>\$ 110,556</u> | <u>\$ -</u> |

26. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expense between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Compensation of Key Management Personnel

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|------------------------------|--|------------------|---|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Short-term employee benefits | \$ <u>13,475</u> | \$ <u>14,979</u> | \$ <u>31,456</u> | \$ <u>33,898</u> |

The remunerations of directors and key executives were determined by the remuneration committee on the basis of individual performance and market trends.

27. UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Group as of the end of the reporting period were as follows:

Unrecognized commitments are as follows:

| | September 30, 2023 | December 31, 2022 | September 30, 2022 |
|--|-----------------------|----------------------|-----------------------|
| Acquisition of property, plant and equipment | \$ <u>4,728</u> | \$ <u>5,946</u> | \$ <u>14,156</u> |

28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group's significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies of the entities in the Group and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

September 30, 2023

| | Foreign Currency (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) |
|------------------------------|---------------------------------------|-----------------|--------------------------------------|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 20,081 | 32.27 (USD:NTD) | \$ 648,002 |
| USD | 390 | 7.180 (USD:RMB) | 12,589 |
| RMB | 94,082 | 4.415 (RMB:NTD) | 415,373 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 902 | 32.27 (USD:NTD) | 29,103 |

December 31, 2022

| | Foreign Currency (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) |
|------------------------------|--|----------------------|---|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 17,557 | 30.71 (USD:NTD) | \$ 539,161 |
| RMB | 78,436 | 4.408 (RMB:NTD) | 345,745 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 1,337 | 30.71 (USD:NTD) | 41,070 |

September 30, 2022

| | Foreign Currency (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) |
|------------------------------|--|----------------------|---|
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 16,577 | 31.750 (USD:NTD) | \$ 526,328 |
| RMB | 59,783 | 4.473 (RMB:NTD) | 267,407 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 1,648 | 31.750 (USD:NTD) | 52,336 |

The significant realized and unrealized foreign exchange gains (losses) were as follows:

| For the Three Months Ended September 30 | | | | |
|--|----------------------|--|----------------------|--|
| 2023 | | | 2022 | |
| Foreign Currency | Exchange Rate | Net Foreign Exchange Gains (Losses) | Exchange Rate | Net Foreign Exchange Gains (Losses) |
| USD | 31.684 (USD:NTD) | \$ 36,225 | 30.404 (USD:NTD) | \$ 35,369 |
| RMB | 4.367 (RMB:NTD) | <u>1,501</u> | 4.431 (RMB:NTD) | <u>285</u> |
| | | <u>\$ 37,726</u> | | <u>\$ 35,654</u> |

| For the Nine Months Ended September 30 | | | | |
|---|----------------------|--|----------------------|--|
| 2023 | | | 2022 | |
| Foreign Currency | Exchange Rate | Net Foreign Exchange Gains (Losses) | Exchange Rate | Net Foreign Exchange Gains (Losses) |
| USD | 30.928 (USD:NTD) | \$ 37,530 | 29.285 (USD:NTD) | \$ 74,043 |
| RMB | 4.394 (RMB:NTD) | <u>(2,000)</u> | 4.428 (RMB:NTD) | <u>2,994</u> |
| | | <u>\$ 35,530</u> | | <u>\$ 77,037</u> |

29. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures):
None
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None
- 9) Trading in derivative instruments: None
- 10) Intercompany relationships and significant intercompany transactions: None

b. Information on investees: Table 1

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 2

- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None
- a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year
 - c) The amount of property transactions and the amount of the resultant gains or losses
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes
 - e) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds
 - f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services
- d. Information of major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 3)

30. SEGMENT INFORMATION

Financial Information

The Group is mainly an important operating department engaged in the manufacture and sale of various circuit testing solutions for semiconductors, including IC front-end test solutions (probe cards and substrates), IC back-end test solutions (load boards and burn-in boards) and other related testing boards. The financial report is the measurement basis for the chief operating decision maker of the Company to allocate resource and evaluate performance, thus reporting single related segment operating information is not necessary.

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

**INFORMATION ON INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023
(In Thousands of New Taiwan Dollars)**

| Investor Company | Investee Company | Location | Main Business and Product | Original Investment Amount | | As of September 30, 2023 | | | Net Income (Loss) of the Investee | Share of Profit (Loss) | Note |
|------------------|--------------------------------------|----------|-----------------------------|----------------------------|-------------------|-----------------------------|-------------------------|-----------------|-----------------------------------|------------------------|---------------|
| | | | | September 30, 2023 | December 31, 2022 | Number of Shares (Thousand) | Percentage of Ownership | Carrying Amount | | | |
| The Company | KEYSTONE MICROTECH International Ltd | SAMOA | General investment business | \$ 18,251 (US\$ 600) | \$ - (US\$ -) | 600 | 100 | \$ 14,655 | \$ (3,819) | \$ (3,819) | Notes 1 and 2 |

Note 1: The amount recognized was determined based on the financial statements which were reviewed and attested by certified public accountants engaged by the Company during the same period.

Note 2: The transactions have been eliminated in the consolidated financial statements.

Note 3: Refer to Table 2 for information on our mainland China investee companies.

KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023
(In Thousands of New Taiwan Dollars)

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment (Note 1) | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2023 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of September 30, 2023 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Carrying Amount as of September 30, 2023 (Note 2) | Accumulated Repatriation of Investment Income as of September 30, 2023 |
|---------------------------------------|---|-------------------------|-------------------------------|---|-------------------------|--------|--|-----------------------------------|--|---------------------------------|---|--|
| | | | | | Outward | Inward | | | | | | |
| SHANGHAI XINCHENG TECHNOLOGY CO., LTD | Sales of semiconductor test components and provision of technical consultation and technical services | \$ 17,904 (US\$ 590) | (b) | \$ - | \$ 17,904 (US\$ 590) | \$ - | \$ 17,904 (US\$ 590) | \$ (3,820) | 100 | \$ (3,820) | \$ 14,332 | \$ - |

| Accumulated Outward Remittance for Investment in Mainland China as of September 30, 2023 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|--|--|---|
| \$17,904 (US\$590 thousand) (Note 3) | \$17,904 (US\$590 thousand) (Notes 3 and 4) | \$1,284,547 (Note 5) |

Note 1: Three methods of investment are the following:

- Direct investment.
- Reinvestment in China through a company located in a third region (specify the investment company registered in the third jurisdiction).
- Other methods.

Note 2: The amount recognized was determined based on the financial statements which were reviewed and attested by certified public accountants engaged by the Company during the same period.

Note 3: The amount was calculated by the actual outflow exchange rate from each time.

Note 4: Approved by the Investment Commission, MOEA (2) No. 11200128900.

Note 5: According to the "Principle of Examination on Investment and Technical Cooperation on Mainland China" of the Investment Review Committee, MOEA, the upper limit of the investment amount is "60% of the net value". (The consolidated equity for the nine months ended September 30, 2023, was \$2,140,911 thousand \times 60% = \$1,284,547 thousand.)

Note 6: The transactions have been eliminated in the consolidated financial statements.

Note 7: The above amounts of asset account and liability account are converted by exchange rate US\$1=NT\$32.2700 into New Taiwan dollar as of September 30, 2023. The amounts of income accounts are converted by average exchange rate, US\$1=NT\$31.9280 into New Taiwan dollar as of January 1, 2023 to September 30, 2023.

TABLE 3**KEYSTONE MICROTECH CORPORATION AND SUBSIDIARIES****INFORMATION OF MAJOR SHAREHOLDERS
SEPTEMBER 30, 2023**

| Name of Major Shareholder | Shares | |
|--------------------------------|------------------|-----------------------------|
| | Number of Shares | Percentage of Ownership (%) |
| Kuan Yi Investment Corporation | 3,097,490 | 11.38 |

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.