

**POLYTRONICS TECHNOLOGY CORP. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REVIEW REPORT**

SIX MONTHS ENDED JUNE 30, 2023 AND 2022

For the convenience of readers and for information purpose only, the auditors' 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

INDEPENDENT AUDITORS' REVIEW REPORT TRANSLATED FROM CHINESE

PWCR23000100

To the Board of Directors and Shareholders of Polytronics Technology Corp.

Introduction

We have reviewed the accompanying consolidated balance sheets of Polytronics Technology Corp. and subsidiaries (the "Group") as of June 30, 2023 and 2022, and the related consolidated statements of comprehensive income for the three months and six months then ended, as well as the consolidated statements of changes in equity and of cash flows for the six months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim financial reporting" that came into effect as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of our review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at June 30, 2023 and 2022, and of its consolidated financial performance for the three months and six months then ended and its consolidated cash flows for the six months then ended in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” that came into effect as endorsed by the Financial Supervisory Commission.

Hsieh, Chih-Cheng

Liu, Chien-Yu

For and on behalf of PricewaterhouseCoopers, Taiwan

August 14, 2023

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers, Taiwan cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023, DECEMBER 31, 2022 AND JUNE 30, 2022
(Expressed in thousands of New Taiwan dollars)
(The balance sheets as of June 30, 2023 and 2022 are reviewed)

Assets	Notes	June 30, 2023		December 31, 2022		June 30, 2022		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 1,054,658	24	\$ 1,102,816	24	\$ 780,867	17
1136	Current financial assets at amortised cost	8	147,139	3	119,999	3	113,199	3
1150	Notes receivable, net	6(2)	144,360	3	196,930	4	164,219	4
1170	Accounts receivable, net	6(2)	501,357	12	438,156	10	497,692	11
1180	Accounts receivable - related parties, net	6(2) and 7	55,510	1	41,389	1	90,668	2
1200	Other receivables		22,470	1	24,528	-	21,166	-
130X	Inventories	6(3)	640,500	15	781,404	17	889,040	20
1410	Prepayments		60,686	1	98,198	2	107,450	2
1470	Other current assets		3,227	-	1,235	-	9,902	-
11XX	Total current assets		<u>2,629,907</u>	<u>60</u>	<u>2,804,655</u>	<u>61</u>	<u>2,674,203</u>	<u>59</u>
Non-current assets								
1535	Non-current financial assets at amortised cost	8	6,926	-	6,926	-	6,926	-
1600	Property, plant and equipment	6(4) and 8	1,188,958	27	1,240,482	27	1,256,817	28
1755	Right-of-use assets	6(5)	203,541	5	195,305	4	200,740	5
1760	Investment property, net	6(7) and 8	105,151	2	106,428	2	107,704	2
1780	Intangible assets		171,342	4	189,877	4	185,167	4
1840	Deferred income tax assets		18,905	1	18,509	1	18,446	1
1900	Other non-current assets		22,001	1	22,833	1	59,315	1
15XX	Total non-current assets		<u>1,716,824</u>	<u>40</u>	<u>1,780,360</u>	<u>39</u>	<u>1,835,115</u>	<u>41</u>
1XXX	Total assets		<u>\$ 4,346,731</u>	<u>100</u>	<u>\$ 4,585,015</u>	<u>100</u>	<u>\$ 4,509,318</u>	<u>100</u>

(Continued)

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2023, DECEMBER 31, 2022 AND JUNE 30, 2022
(Expressed in thousands of New Taiwan dollars)
(The balance sheets as of June 30, 2023 and 2022 are reviewed)

Liabilities and Equity	Notes	June 30, 2023		December 31, 2022		June 30, 2022		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
Current liabilities								
2100	Short-term borrowings	6(8)	\$ 520,638	12	\$ 508,933	11	\$ 392,877	9
2130	Current contract liabilities	6(16)	11,433	1	9,522	-	3,208	-
2150	Notes payable		39,642	1	50,666	1	45,603	1
2170	Accounts payable		170,577	4	173,287	4	228,101	5
2200	Other payables	6(9)	196,297	5	293,322	7	249,743	5
2230	Current income tax liabilities		54,773	1	52,119	1	74,898	2
2280	Current lease liabilities		10,000	-	8,527	-	9,556	-
2320	Long-term liabilities, current portion	6(10)	262,594	6	-	-	-	-
2399	Other current liabilities, others		9,304	-	12,638	-	21,334	-
21XX	Total current liabilities		<u>1,275,258</u>	<u>30</u>	<u>1,109,014</u>	<u>24</u>	<u>1,025,320</u>	<u>22</u>
Non-current liabilities								
2530	Bonds payable	6(10)	-	-	260,504	6	258,431	6
2580	Non-current lease liabilities		190,067	4	182,350	4	186,095	4
2600	Other non-current liabilities		39,889	1	39,719	1	39,699	1
25XX	Total non-current liabilities		<u>229,956</u>	<u>5</u>	<u>482,573</u>	<u>11</u>	<u>484,225</u>	<u>11</u>
2XXX	Total liabilities		<u>1,505,214</u>	<u>35</u>	<u>1,591,587</u>	<u>35</u>	<u>1,509,545</u>	<u>33</u>
Equity								
Equity attributable to owners of parent								
Share capital								
3110	Common stock	6(12)	856,453	20	856,453	19	856,453	19
Capital surplus								
3200	Capital surplus	6(13)	582,735	14	625,558	13	625,558	14
Retained earnings								
3310	Legal reserve	6(14)	618,454	14	609,426	13	609,426	14
3320	Special reserve		13,449	-	82,092	2	82,092	2
3350	Unappropriated retained earnings		488,455	11	470,887	10	423,552	9
Other equity interest								
3400	Other equity interest	6(15)	(37,707)	(1)	(13,449)	-	(28,091)	(1)
31XX	Equity attributable to owners of parent		<u>2,521,839</u>	<u>58</u>	<u>2,630,967</u>	<u>57</u>	<u>2,568,990</u>	<u>57</u>
36XX	Non-controlling interests		<u>319,678</u>	<u>7</u>	<u>362,461</u>	<u>8</u>	<u>430,783</u>	<u>10</u>
3XXX	Total equity		<u>2,841,517</u>	<u>65</u>	<u>2,993,428</u>	<u>65</u>	<u>2,999,773</u>	<u>67</u>
Significant contingent liabilities and unrecognised contract commitments								
Significant events after the reporting period								
3X2X	Total liabilities and equity		<u>\$ 4,346,731</u>	<u>100</u>	<u>\$ 4,585,015</u>	<u>100</u>	<u>\$ 4,509,318</u>	<u>100</u>

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(Expressed in thousands of New Taiwan dollars, except earnings (loss) per share amounts)
(Reviewed, but not audited)

Items	Notes	Three months ended June 30				Six months ended June 30				
		2023		2022		2023		2022		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	
4000	Operating revenue	6(16) and 7	\$ 716,184	100	\$ 733,951	100	\$ 1,378,326	100	\$ 1,522,501	100
5000	Operating costs	6(3)	(549,107)	(77)	(713,433)	(97)	(1,073,424)	(78)	(1,277,187)	(84)
5950	Net operating margin		167,077	23	20,518	3	304,902	22	245,314	16
	Operating expenses	6(21)(22)								
6100	Selling and marketing expenses		(51,846)	(7)	(47,652)	(7)	(105,075)	(7)	(96,928)	(6)
6200	General and administrative expenses		(74,053)	(10)	(83,406)	(11)	(146,608)	(11)	(165,965)	(11)
6300	Research and development expenses		(55,451)	(8)	(42,286)	(6)	(114,158)	(8)	(85,133)	(6)
6450	Expected credit (losses) gains	12(2)	(839)	-	(452)	-	(1,359)	-	(451)	-
6000	Total operating expenses		(182,189)	(25)	(173,796)	(24)	(367,200)	(26)	(348,477)	(23)
6900	Operating loss		(15,112)	(2)	(153,278)	(21)	(62,298)	(4)	(103,163)	(7)
	Non-operating income and expenses									
7100	Interest income	6(17)	4,417	-	1,819	-	5,705	-	3,475	-
7010	Other income	6(18)	35,393	5	30,308	4	87,725	6	53,582	3
7020	Other gains and losses	6(19)	(212)	-	12,804	2	(3,441)	-	27,335	2
7050	Finance costs	6(20)	(6,940)	(1)	(2,559)	-	(16,029)	(1)	(5,736)	-
7000	Total non-operating income and expenses		32,658	4	42,372	6	73,960	5	78,656	5
7900	Profit (loss) before income tax		17,546	2	(110,906)	(15)	11,662	1	(24,507)	(2)
7950	Income tax expense	6(23)	(1,430)	-	(21,121)	(3)	(15,672)	(1)	(45,328)	(3)
8200	Profit (loss) for the period		\$ 16,116	2	(\$ 132,027)	(18)	(\$ 4,010)	-	(\$ 69,835)	(5)
	Other comprehensive income (loss)									
	Components of other comprehensive income (loss) that may be subsequently reclassified to profit or loss									
8361	Financial statements translation differences of foreign operations	6(15)	(\$ 15,613)	(2)	\$ 14,850	2	(\$ 19,433)	(2)	\$ 77,268	5
8360	Components of other comprehensive (loss) income that may be subsequently reclassified to profit or loss		(15,613)	(2)	14,850	2	(19,433)	(2)	77,268	5
8300	Other comprehensive (loss) income for the period, net of income tax		(\$ 15,613)	(2)	\$ 14,850	2	(\$ 19,433)	(2)	\$ 77,268	5
8500	Total comprehensive (loss) income for the period		\$ 503	-	(\$ 117,177)	(16)	(\$ 23,443)	(2)	\$ 7,433	-
	Profit (loss) attributable to:									
8610	Owners of parent		\$ 38,356	5	(\$ 36,747)	(5)	\$ 43,598	3	\$ 42,946	3
8620	Non-controlling interests		(22,240)	(3)	(95,280)	(13)	(47,608)	(3)	(112,781)	(8)
	Total		\$ 16,116	2	(\$ 132,027)	(18)	(\$ 4,010)	-	(\$ 69,835)	(5)
	Total comprehensive income (loss) attributable to:									
8710	Owners of parent		\$ 14,912	2	(\$ 35,554)	(5)	\$ 19,340	1	\$ 96,947	6
8720	Non-controlling interests		(14,409)	(2)	(81,623)	(11)	(42,783)	(3)	(89,514)	(6)
	Total		\$ 503	-	(\$ 117,177)	(16)	(\$ 23,443)	(2)	\$ 7,433	-
9750	Basic earnings (loss) per share (in dollars)	6(24)	\$ 0.45		(\$ 0.43)		\$ 0.51		\$ 0.50	
9850	Diluted earnings (loss) per share (in dollars)	6(24)	\$ 0.45		(\$ 0.43)		\$ 0.51		\$ 0.50	

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
SIX MONTHS ENDED JUNE 30, 2023 AND 2022
(Expressed in thousands of New Taiwan dollars)
(Reviewed, but not audited)

Notes	Equity attributable to owners of the parent												Total equity
	Common stock	Additional paid-in capital	Treasury stock transactions	Capital reserves Capital surplus, changes in ownership interests in subsidiaries	Employee stock options	Capital surplus, share options	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Total	Non-controlling interests	
Six months ended June 30, 2022													
	\$ 856,453	\$ 562,539	\$ 14,924	\$ 5,492	\$ 30,563	\$ 12,040	\$ 558,243	\$ 70,304	\$ 807,570	(\$ 82,092)	\$ 2,836,036	\$ 520,297	\$ 3,356,333
	-	-	-	-	-	-	-	-	42,946	-	42,946	(112,781)	(69,835)
6(15)	-	-	-	-	-	-	-	-	-	54,001	54,001	23,267	77,268
	-	-	-	-	-	-	-	-	42,946	54,001	96,947	(89,514)	7,433
Distribution of 2021 earnings: 6(14)													
	-	-	-	-	-	-	51,183	-	(51,183)	-	-	-	-
	-	-	-	-	-	-	-	11,788	(11,788)	-	-	-	-
	-	-	-	-	-	-	-	-	(363,993)	-	(363,993)	-	(363,993)
	\$ 856,453	\$ 562,539	\$ 14,924	\$ 5,492	\$ 30,563	\$ 12,040	\$ 609,426	\$ 82,092	\$ 423,552	(\$ 28,091)	\$ 2,568,990	\$ 430,783	\$ 2,999,773
Six months ended June 30, 2023													
	\$ 856,453	\$ 562,539	\$ 14,924	\$ 5,492	\$ 30,563	\$ 12,040	\$ 609,426	\$ 82,092	\$ 470,887	(\$ 13,449)	\$ 2,630,967	\$ 362,461	\$ 2,993,428
	-	-	-	-	-	-	-	-	43,598	-	43,598	(47,608)	(4,010)
6(15)	-	-	-	-	-	-	-	-	-	(24,258)	(24,258)	4,825	(19,433)
	-	-	-	-	-	-	-	-	43,598	(24,258)	19,340	(42,783)	(23,443)
Distribution of 2022 earnings: 6(14)													
	-	-	-	-	-	-	9,028	-	(9,028)	-	-	-	-
	-	-	-	-	-	-	-	(68,643)	68,643	-	-	-	-
	-	-	-	-	-	-	-	-	(85,645)	-	(85,645)	-	(85,645)
6(14)	-	(42,823)	-	-	-	-	-	-	-	-	(42,823)	-	(42,823)
	\$ 856,453	\$ 519,716	\$ 14,924	\$ 5,492	\$ 30,563	\$ 12,040	\$ 618,454	\$ 13,449	\$ 488,455	(\$ 37,707)	\$ 2,521,839	\$ 319,678	\$ 2,841,517

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2023 AND 2022
(Expressed in thousands of New Taiwan dollars)
(Reviewed, but not audited)

	Notes	Six months ended June 30	
		2023	2022
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit (loss) before tax		\$ 11,662	(\$ 24,507)
Adjustments			
Adjustments to reconcile (profit) loss			
Expected credit losses	12(2)	1,359	451
Depreciation	6(21)	102,157	95,307
Amortisation	6(21)	22,309	22,072
Interest expense	6(20)	16,029	5,736
Interest income	6(17)	(5,705)	(3,475)
Losses (gains) on disposal of property, plant and equipment	6(19)	(939)	744
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		52,570	43,916
Accounts receivable		(64,560)	(4,980)
Accounts receivable - related parties		(14,121)	6,715
Other receivables		2,058	(5,848)
Inventories		140,904	35,877
Prepayments		37,512	(21,784)
Other current assets		(1,992)	25,149
Changes in operating liabilities			
Current contract liabilities		1,911	1,583
Notes payable		(11,024)	(14,513)
Accounts payable		(2,710)	(84,700)
Other payables		(96,281)	(130,858)
Other current liabilities		(3,334)	9,105
Defined benefit liabilities		170	(415)
Cash inflow (outflow) generated from operations		187,975	(44,425)
Interest received		5,705	3,475
Interest paid		(14,623)	(2,999)
Income tax paid		(13,423)	(65,095)
Net cash flows from (used in) operating activities		<u>165,634</u>	<u>(109,044)</u>

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POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2023 AND 2022
(Expressed in thousands of New Taiwan dollars)
(Reviewed, but not audited)

	Notes	Six months ended June 30	
		2023	2022
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of financial assets at amortised cost		(\$ 27,140)	(\$ 295,806)
Disposal of financial assets at amortised cost		-	691,970
Acquisition of property, plant and equipment	6(25)	(46,574)	(88,432)
Proceeds from disposal of property, plant and equipment		8,134	-
Acquisition of intangible assets		(1,769)	(1,577)
Decrease (increase) in refundable deposits		370	(453)
Net cash flows (used in) from investing activities		(66,979)	305,702
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from short-term borrowings	6(26)	836,690	776,334
Repayment of short-term borrowings	6(26)	(812,543)	(1,205,899)
Repayment of lease liabilities	6(26)	(5,540)	(5,422)
Cash dividends paid (including cash distributed from capital surplus)	6(14)	(128,468)	(363,993)
Net cash flows used in financing activities		(109,861)	(798,980)
Effect of exchange rate		(36,952)	38,149
Net decrease in cash and cash equivalents		(48,158)	(564,173)
Cash and cash equivalents at beginning of period		1,102,816	1,345,040
Cash and cash equivalents at end of period	6(1)	\$ 1,054,658	\$ 780,867

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2023 AND 2022

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

(Reviewed, but not audited)

1. HISTORY AND ORGANISATION

Polytronics Technology Corporation (the “Company”) was incorporated on December 18, 1997 and commenced operations on August 1, 1999. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the research, development, manufacture and sale of polymeric positive temperature coefficient thermistors, overvoltage protective devices and its production related semi-finished goods, modules and dies, thermal conductive boards, thermal module, heat dispersing materials and LED lightings and modules.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on August 14, 2023.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

New standards, interpretations and amendments endorsed by FSC and became effective from 2023 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board ("IASB")</u>
Amendments to IAS 1, ‘Disclosure of accounting policies’	January 1, 2023
Amendments to IAS 8, ‘Definition of accounting estimates’	January 1, 2023
Amendments to IAS 12, ‘Deferred tax related to assets and liabilities arising from a single transaction’	January 1, 2023

The above standards and interpretations have no significant impact to the Group’s financial position and financial performance based on the Group’s assessment.

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

None.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</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
Amendments to IFRS 16, ‘Lease liability in a sale and leaseback’	January 1, 2024
IFRS 17, ‘Insurance contracts’	January 1, 2023
Amendments to IFRS 17, ‘Insurance contracts’	January 1, 2023
Amendment to IFRS 17, ‘Initial application of IFRS 17 and IFRS 9 – comparative information’	January 1, 2023
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
Amendments to IAS 12, ‘International tax reform - pillar two model rules’	May 23, 2023

The above standards and interpretations have no significant impact to the Group’s financial position and financial performance based on the Group’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2022, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. These consolidated financial statements of the Group have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards 34, “Interim financial reporting” that came into effect as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2022.

(2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

The same basis of consolidation have been followed in these consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2022.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiaries	Main Business Activities	Ownership (%)			Note
			June 30, 2023	December 31, 2022	June 30, 2022	
Polytronics Technology Corporation	Polytronics (B.V.I.) Corporation	Investments and general business operations	100	100	100	
Polytronics Technology Corporation	TCLAD Technology Corporation	Manufacturing of the thermal conductive board	56.27	56.27	56.27	
Polytronics Technology Corporation	PolyTCB Electronics Corporation	Manufacturing and sales of electronic components	100	100	-	Note 1
TCLAD Technology Corporation	TCLAD Inc.	Manufacturing of the thermal conductive board	100	100	100	
TCLAD Technology Corporation	TCLAD Europe GmbH	Manufacturing of the thermal conductive board	85	85	85	
TCLAD Technology Corporation	Suzhou TCLAD Electronic Technology Co., Ltd	Manufacturing of the thermal conductive board	100	-	-	Note 2
Polytronics (B.V.I.) Corporation	Kunshan Polystar Electronics Co., Ltd.	Production and sale of varistor and potentiometer	100	100	100	
Kunshan Polystar Electronics Co., Ltd.	PolyStellar Electronics Co., Ltd.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	100	100	100	

Note 1: Established and registered by the Company on November 23, 2022.

Note 2: Established and registered by the Company on March 16, 2023.

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

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

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of June 30, 2023, December 31, 2022 and June 30, 2022, the non-controlling interests amounted to \$319,678, \$362,461 and \$430,783, respectively. The information of non-controlling interests and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interests		Description
		June 30, 2023		
		Amount	Ownership (%)	
TCLAD Technology Corporation	Taiwan	\$ 319,678	43.73%	

Name of subsidiary	Principal place of business	Non-controlling interests		Description
		December 31, 2022		
		Amount	Ownership (%)	
TCLAD Technology Corporation	Taiwan	\$ 362,461	43.73%	

Name of subsidiary	Principal place of business	Non-controlling interests		Description
		June 30, 2022		
		Amount	Ownership (%)	
TCLAD Technology Corporation	Taiwan	\$ 430,783	43.73%	

Balance sheet:

	TCLAD Technology Corporation and Subsidiaries		
	June 30, 2023	December 31, 2022	June 30, 2022
Current assets	\$ 618,339	\$ 584,844	\$ 697,033
Non-current assets	519,441	549,841	572,612
Current liabilities	(408,398)	(308,384)	(286,183)
Non-current liabilities	(348)	-	-
Total net assets	\$ 729,034	\$ 826,301	\$ 983,462

Statement of comprehensive income:

	TCLAD Technology Corporation and Subsidiaries	
	April 1, 2023 to June 30, 2023	April 1, 2022 to June 30, 2022
Revenue	\$ 275,790	\$ 267,430
Loss before income tax	(49,971)	(217,158)
Income tax benefit (expense)	(79)	(115)
Loss for the period	(50,050)	(217,273)
Other comprehensive loss, net of income tax	17,877	-
Total comprehensive loss	(\$ 32,173)	(\$ 217,273)
Total comprehensive loss attributable to non-controlling interests	(\$ 603)	(\$ 596)
Dividends paid to non-controlling interests	\$ -	\$ -

	TCLAD Technology Corporation and Subsidiaries	
	January 1, 2023 to June 30, 2023	January 1, 2022 to June 30, 2022
Revenue	\$ 536,476	\$ 543,288
Loss before income tax	(108,080)	(257,919)
Income tax benefit (expense)	(151)	(75)
Loss for the period	(108,231)	(257,994)
Other comprehensive loss, net of income tax	10,965	-
Total comprehensive loss	(\$ 97,266)	(\$ 257,994)
Total comprehensive loss attributable to non-controlling interests	(\$ 446)	(\$ 55)
Dividends paid to non-controlling interests	\$ -	\$ -

Statement of cash flows:

		TCLAD Technology Corporation and Subsidiaries	
		January 1, 2023 to June 30, 2023	January 1, 2022 to June 30, 2022
Net cash used in operating activities	(\$	126,817)	(\$ 292,161)
Net cash (used in) provided by investing activities	(	12,408)	438,980
Net cash provided by (used in) financing activities		164,400	(377,788)
Effect of exchange rates		9,628	26,460
Increase (decrease) in cash and cash equivalents		34,803	(204,509)
Cash and cash equivalents, beginning of period		117,030	343,476
Cash and cash equivalents, end of period	\$	<u>151,833</u>	\$ <u>138,967</u>

(4) Employee benefits

Defined benefit plans

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

(5) Income tax

The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

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

There have been no significant changes for the six months ended June 30, 2023. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2022.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	June 30, 2023	December 31, 2022	June 30, 2022
Cash on hand and revolving funds	\$ 196	\$ 97	\$ 123
Checking accounts and demand deposits	487,302	591,959	560,675
Time deposits	567,160	510,760	220,069
	<u>\$ 1,054,658</u>	<u>\$ 1,102,816</u>	<u>\$ 780,867</u>

The Group transacts with a variety of financial institutions all with high credit quality to disperse

credit risk, so it expects that the probability of counterparty default is remote.

(2) Notes and accounts receivable

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Notes receivable	\$ 144,360	\$ 196,930	\$ 164,219
Accounts receivable	\$ 521,359	\$ 457,360	\$ 516,933
Accounts receivable-related parties	55,510	41,389	90,668
Less: Loss allowance	(20,002)	(19,204)	(19,241)
	<u>\$ 556,867</u>	<u>\$ 479,545</u>	<u>\$ 588,360</u>

A. The ageing analysis of accounts receivable and notes receivable is as follows:

	<u>June 30, 2023</u>		<u>December 31, 2022</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 489,132	\$ 144,360	\$ 441,153	\$ 196,930
Up to 30 days	49,143	-	28,167	-
31 to 90 days	18,458	-	6,216	-
91 to 180 days	3,166	-	950	-
Over 180 days	16,970	-	22,263	-
	<u>\$ 576,869</u>	<u>\$ 144,360</u>	<u>\$ 498,749</u>	<u>\$ 196,930</u>

	<u>June 30, 2022</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
Not past due	\$ 561,381	\$ 164,219
Up to 30 days	20,051	-
31 to 90 days	5,941	-
91 to 180 days	4,599	-
Over 180 days	15,629	-
	<u>\$ 607,601</u>	<u>\$ 164,219</u>

The above ageing analysis was based on past due date.

- B. As of June 30, 2023, December 31, 2022 and June 30, 2022, accounts receivable and notes receivable were all from contracts with customers. As of January 1, 2022, the balance of receivables from contracts with customers amounted to \$817,047.
- C. As at June 30, 2023, December 31, 2022 and June 30, 2022, without taking into account any collaterals held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes receivable were \$144,360, \$196,930 and \$164,129, respectively, and accounts receivable were \$556,867, \$479,545 and \$588,360, respectively.
- D. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(3) Inventories

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Raw materials	\$ 285,863	\$ 293,244	\$ 352,971
Work-in-progress	178,821	200,399	189,056
Finished goods	175,816	287,761	347,013
	<u>\$ 640,500</u>	<u>\$ 781,404</u>	<u>\$ 889,040</u>

The cost of inventories recognised as expense for the period:

	<u>Three months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Cost of goods sold	\$ 533,848	\$ 698,291
Loss on decline in market value	15,259	15,142
	<u>\$ 549,107</u>	<u>\$ 713,433</u>
	<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Cost of goods sold	\$ 1,046,966	\$ 1,252,495
Loss on decline in market value	26,458	24,692
	<u>\$ 1,073,424</u>	<u>\$ 1,277,187</u>

(4) Property, plant and equipment

	2023									
	Land	Buildings	Machinery equipment	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Other equipment	Construction in progress	Total
At January 1										
Cost	\$ 2,345	\$ 1,031,867	\$ 1,076,562	\$ 14,151	\$ 13,328	\$ 23,851	\$ 19,926	\$ 209,245	\$ -	\$ 2,391,275
Accumulated depreciation and impairment	-	(390,488)	(540,818)	(9,414)	(9,101)	(14,910)	(18,711)	(167,351)	-	(1,150,793)
	<u>\$ 2,345</u>	<u>\$ 641,379</u>	<u>\$ 535,744</u>	<u>\$ 4,737</u>	<u>\$ 4,227</u>	<u>\$ 8,941</u>	<u>\$ 1,215</u>	<u>\$ 41,894</u>	<u>\$ -</u>	<u>\$ 1,240,482</u>
Opening net book amount	\$ 2,345	\$ 641,379	\$ 535,744	\$ 4,737	\$ 4,227	\$ 8,941	\$ 1,215	\$ 41,894	\$ -	\$ 1,240,482
Additions	-	24,791	12,425	313	272	942	-	2,810	2,409	43,962
Disposals	-	-	(4,046)	(41)	-	-	-	(3,108)	-	(7,195)
Depreciation	-	(21,065)	(59,698)	(698)	(806)	(1,992)	(262)	(10,218)	-	(94,739)
Net exchange differences	33	(2,558)	5,954	(8)	(141)	25	-	3,134	9	6,448
Closing net book amount	<u>\$ 2,378</u>	<u>\$ 642,547</u>	<u>\$ 490,379</u>	<u>\$ 4,303</u>	<u>\$ 3,552</u>	<u>\$ 7,916</u>	<u>\$ 953</u>	<u>\$ 34,512</u>	<u>\$ 2,418</u>	<u>\$ 1,188,958</u>
At June 30										
Cost	\$ 2,378	\$ 1,050,340	\$ 1,078,433	\$ 14,140	\$ 13,216	\$ 24,837	\$ 19,926	\$ 211,474	\$ 2,418	\$ 2,417,162
Accumulated depreciation and impairment	-	(407,793)	(588,054)	(9,837)	(9,664)	(16,921)	(18,973)	(176,962)	-	(1,228,204)
	<u>\$ 2,378</u>	<u>\$ 642,547</u>	<u>\$ 490,379</u>	<u>\$ 4,303</u>	<u>\$ 3,552</u>	<u>\$ 7,916</u>	<u>\$ 953</u>	<u>\$ 34,512</u>	<u>\$ 2,418</u>	<u>\$ 1,188,958</u>

	2022									
	Land	Buildings	Machinery equipment	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Other equipment	Construction in progress	Total
At January 1										
Cost	\$ 2,114	\$ 1,007,330	\$ 871,773	\$ 13,082	\$ 13,121	\$ 21,743	\$ 19,926	\$ 199,304	\$ 4,161	\$ 2,152,554
Accumulated depreciation and impairment	-	(346,207)	(437,769)	(8,042)	(7,560)	(11,063)	(18,187)	(151,265)	-	(980,093)
	<u>\$ 2,114</u>	<u>\$ 661,123</u>	<u>\$ 434,004</u>	<u>\$ 5,040</u>	<u>\$ 5,561</u>	<u>\$ 10,680</u>	<u>\$ 1,739</u>	<u>\$ 48,039</u>	<u>\$ 4,161</u>	<u>\$ 1,172,461</u>
Opening net book amount	\$ 2,114	\$ 661,123	\$ 434,004	\$ 5,040	\$ 5,561	\$ 10,680	\$ 1,739	\$ 48,039	\$ 4,161	\$ 1,172,461
Additions	-	458	102,453	619	-	1,368	-	4,192	20,444	129,534
Disposals	-	-	(741)	-	-	-	-	(3)	-	(744)
Reclassifications	-	-	6,842	-	-	-	-	-	(6,842)	-
Depreciation	-	(21,059)	(50,650)	(660)	(874)	(2,002)	(262)	(12,428)	-	(87,935)
Net exchange differences	156	16,042	21,862	207	248	182	-	4,244	560	43,501
Closing net book amount	<u>\$ 2,270</u>	<u>\$ 656,564</u>	<u>\$ 513,770</u>	<u>\$ 5,206</u>	<u>\$ 4,935</u>	<u>\$ 10,228</u>	<u>\$ 1,477</u>	<u>\$ 44,044</u>	<u>\$ 18,323</u>	<u>\$ 1,256,817</u>
At June 30										
Cost	\$ 2,270	\$ 1,026,414	\$ 1,003,980	\$ 14,009	\$ 13,308	\$ 23,148	\$ 19,926	\$ 201,826	\$ 18,323	\$ 2,323,204
Accumulated depreciation and impairment	-	(369,850)	(490,210)	(8,803)	(8,373)	(12,920)	(18,449)	(157,782)	-	(1,066,387)
	<u>\$ 2,270</u>	<u>\$ 656,564</u>	<u>\$ 513,770</u>	<u>\$ 5,206</u>	<u>\$ 4,935</u>	<u>\$ 10,228</u>	<u>\$ 1,477</u>	<u>\$ 44,044</u>	<u>\$ 18,323</u>	<u>\$ 1,256,817</u>

- A. For the six months ended June 30, 2023 and 2022, there was no capitalisation of borrowing costs attributable to property, plant and equipment.
- B. Information about property, plant and equipment that were pledged to others as collateral is provided in Note 8.
- C. Above property, plant and equipment are owner-occupied.

(5) Leasing arrangements — lessee

- A. The Group leases various assets including land, buildings and business vehicles. Lease agreements are typically made for periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.
- B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
	Carrying amount	Carrying amount	Carrying amount
Land	\$ 186,647	\$ 189,639	\$ 192,399
Buildings	15,066	3,032	5,508
Transportation equipment	1,828	2,634	2,833
	<u>\$ 203,541</u>	<u>\$ 195,305</u>	<u>\$ 200,740</u>

	<u>Three months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
	Depreciation	Depreciation
Land	\$ 1,280	\$ 1,440
Buildings	1,393	1,238
Transportation equipment	366	450
	<u>\$ 3,039</u>	<u>\$ 3,128</u>

	<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
	Depreciation	Depreciation
Land	\$ 2,637	\$ 2,715
Buildings	2,735	2,476
Transportation equipment	769	903
	<u>\$ 6,141</u>	<u>\$ 6,094</u>

- C. For the three months and six months ended June 30, 2023 and 2022, the additions to right-of-use assets were \$0, \$3,074, \$14,731 and \$3,074, respectively.
- D. The information on profit and loss accounts relating to lease agreements is as follows:

	<u>Three months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	<u>\$ 707</u>	<u>\$ 697</u>

	<u>Six months ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	<u>\$ 1,406</u>	<u>\$ 1,392</u>

E. For the six months ended June 30, 2023 and 2022, the Group's total cash outflow for leases were \$6,946 and \$6,814, respectively.

F. Extension and termination options

In determining the lease term, the Group takes into consideration all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

(6) Leasing arrangements – lessor

A. The Group leases buildings to others. Lease agreements are typically made for periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes, or a residual value guarantee was required.

B. For the three months and six months ended June 30, 2023 and 2022, the Group recognised rent income in the amounts of \$12,449, \$12,433, \$26,659 and \$26,710, respectively, based on the operating lease agreement, which does not include variable lease payments.

C. The maturity analysis of the lease payments collectible under the operating leases is as follows:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
2022	\$ -	\$ -	\$ 20,803
2023	20,211	44,177	37,148
2024	16,469	16,469	16,469
2025	2,788	2,788	2,788
2026	1,936	1,936	1,936
	<u>\$ 41,404</u>	<u>\$ 65,370</u>	<u>\$ 79,144</u>

(7) Investment property

	<u>2023</u>	<u>2022</u>
	<u>Buildings</u>	<u>Buildings</u>
At January 1		
Cost	\$ 130,238	\$ 130,238
Accumulated depreciation	(23,810)	(21,256)
	<u>\$ 106,428</u>	<u>\$ 108,982</u>
Opening net book amount	\$ 106,428	\$ 108,982
Depreciation	(1,277)	(1,278)
Closing net book amount	<u>\$ 105,151</u>	<u>\$ 107,704</u>
At June 30		
Cost	\$ 130,238	\$ 130,238
Accumulated depreciation	(25,087)	(22,534)
	<u>\$ 105,151</u>	<u>\$ 107,704</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	Three months ended June 30,	
	2023	2022
Rental income from investment property	\$ 12,190	\$ 12,752
Direct operating expenses arising from the investment property that generated rental income during the period	\$ 1,563	\$ 1,461
	Six months ended June 30,	
	2023	2022
Rental income from investment property	\$ 26,166	\$ 26,710
Direct operating expenses arising from the investment property that generated rental income during the period	\$ 2,202	\$ 2,100

B. The fair value of investment property held by the Group as of June 30, 2023, December 31, 2022 and June 30, 2022 were all \$265,364. The fair value is estimated using the valuation method frequently used by market participants which is categorised with Level 3 in the fair value hierarchy. The valuation is based on evidence of similar trading prices.

C. Information about the investment property that were pledged to others as collateral is provided in Note 8.

(8) Short-term borrowings

Type of borrowings	June 30, 2023	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 93,201	6.050%	None
Secured borrowings	427,437	3.100%	Buildings and time deposits
	<u>\$ 520,638</u>		
Type of borrowings	December 31, 2022	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 208,933	5.026%	None
Secured borrowings	300,000	1.617%	Buildings and time deposits
	<u>\$ 508,933</u>		
Type of borrowings	June 30, 2022	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 118,877	1.750%	None
Secured borrowings	274,000	1.120%	Buildings and time deposits
	<u>\$ 392,877</u>		

Interest expense recognised in profit or loss amounted to \$1,060, \$682, \$4,670 and \$1,356 for the

three months and six months ended June 30, 2023 and 2022, respectively.

(9) Other payables

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Wages and salaries payable	\$ 65,251	\$ 87,038	\$ 56,124
Employee bonus and directors' remuneration payable	13,902	42,000	9,000
Payables on machinery and equipment	3,666	5,816	30,768
Others	113,478	158,468	153,851
	<u>\$ 196,297</u>	<u>\$ 293,322</u>	<u>\$ 249,743</u>

(10) Bonds payable

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Bonds payable			
The Company's first unsecured convertible bonds	<u>\$ 360,000</u>	<u>\$ 360,000</u>	<u>\$ 360,000</u>
	360,000	360,000	360,000
Less: Conversion option amount exercised	(95,300)	(95,300)	(95,300)
Less: Discount on bonds payable	(2,106)	(4,196)	(6,269)
	262,594	260,504	258,431
Less: Current portion	(262,594)	-	-
	<u>\$ -</u>	<u>\$ 260,504</u>	<u>\$ 258,431</u>

A. On November 11, 2020, the Company's Board of Directors resolved to issue the first domestic unsecured convertible bonds. The issuance has been approved by the FSC and was issued on January 18, 2021, the terms of the issuance were as following:

- (a) Total issuance amount: \$360 million.
- (b) The issuance price: The face value was \$100,000 (in dollars) and was issued at 101% of face value.
- (c) Issuance duration: 3 years (from January 18, 2021 to January 18, 2024).
- (d) Coupon rate of bonds: 0%.
- (e) Payback date and method: Except for converting into common shares during conversion period or repurchased and retired by the Company in advance, the bonds will be repaid at once in cash at face value on maturity date.
- (f) Conversion period: From three months after the issuance date (April 19, 2021) and ending on the maturity date (January 18, 2024), the creditor may request conversion at any time, except during the legal suspension of the transfer period.
- (g) Conversion price and adjustment: The conversion price was \$107 (in dollars) per share at issuance. However, if the ex-rights and ex-dividends occur after the issuance, the applicable conversion price was subject to adjustments based on the conversion price adjustment formula.

- (h) The rights and obligations of the new shares after conversion are the same as those of the Company's ordinary shares.
- (i) Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.
- (j) Regarding the issuance of convertible bonds, the equity conversion options amounting to \$16,374 were separated from the liability component and were recognised in "Capital surplus – share options" in accordance with IAS 32. The effective interest rates of the bonds payable after such separation ranged 1.5989%.
- (k) Through June 30, 2023, the convertible corporate bonds with face value of \$95,300 have been converted into 944 thousand ordinary shares.

(11) Pensions

- A.(a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2.5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$325, \$380, \$650 and \$760 for the three months and six months ended June 30, 2023 and 2022, respectively.
 - (c) Expected contributions to the defined benefit pension plans of the Group for next year amount to \$3,434.
- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company and its domestic subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of

employment.

- (b) The Company's Mainland China subsidiary, Polystar Electronics Co., Ltd., has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on a certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The Group's US subsidiary has established a 401(K) pension plan in accordance with Section 401(K) of the Internal Revenue Code (IRC). All eligible employees can elect to have a certain portion of their salaries contributed to their individual pension accounts according to the contribution limit. The US subsidiary makes a matching contribution of no higher than 8% of each employee's salary to their individual pension accounts.
- (d) The pension costs under the defined contribution pension plans of the Group for the three months and six months ended June 30, 2023 and 2022, were \$7,497, \$9,639, \$16,895 and \$20,237, respectively.

(12) Share capital

As of June 30, 2023, the Company's authorised capital was \$1,000,000, consisting of 100,000 thousand shares of ordinary share (including 5 million shares reserved for employee stock options), and the paid-in capital was \$856,453 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares):

	<u>2023</u>	<u>2022</u>
At January 1 / At June 30	<u>85,646</u>	<u>85,646</u>

(13) Capital surplus

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

(14) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve, except as legal reserve reaches amount equal to the paid-in capital, then setting aside or reversing special reserve according to the resolution of

shareholders during their meeting or the request by competent authorities. Appropriation of remainder, and unappropriated retained earnings from prior years, shall be proposed by the Board of Directors and resolved by the shareholders' meeting.

In accordance with Company Act Article 240, Item 5 and Article 241, Item 2, the resolution, for all or a portion of distributable dividends, legal reserve and capital surplus that are distributed in the form of cash, will be adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, and will be reported to the shareholders, shall not be subject to the resolution at the shareholders' meeting.

- B. Dividend policy: As the Company is in a rapidly changing industry and in the growth stage, and considering the Company's long-term financial plans, shareholders' long-term interest and stabilising performance target, cash dividend distribution shall not be lower than 10% of the total dividend distribution.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve based on debit balances of other equity items at the balance sheet date before distributing earnings. When debit balances of other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- E. The appropriations for 2022 and 2021 had been resolved at shareholders' meeting on June 21, 2023 and June 23, 2022 are as follows:

	2022		2021	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 9,028		\$ 51,183	
Special reserve	(68,643)		11,788	
Cash dividends	85,645	\$ 1.00	363,993	\$ 4.25
	\$ 26,030		\$ 426,964	

- G. The Company adopted the resolution of the Board of Directors on March 16, 2023 to distribute cash of \$42,823 (\$0.5 per share) in proportion to the ownership interest of shareholders using capital surplus, which was reported at the shareholders' meeting on June 21, 2023.

(15) Other equity items

	Financial statements translation difference of foreign operations	
At January 1, 2023	(\$	13,449)
Currency translation differences	(	24,258)
At June 30, 2023	(\$	37,707)
	Financial statements translation difference of foreign operations	
At January 1, 2022	(\$	82,092)
Currency translation differences		54,001
At June 30, 2022	(\$	28,091)

(16) Operating revenue

	Three months ended June 30,	
	2023	2022
Sales revenue	\$ 716,184	\$ 733,951
	Six months ended June 30,	
	2023	2022
Sales revenue	\$ 1,378,326	\$ 1,522,501

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following major and geographical regions:

Three months ended June 30, 2023	China	Taiwan	USA	Others	Total
Sales revenue	\$ 319,451	\$ 62,351	\$ 215,305	\$ 119,077	\$ 716,184
Three months ended June 30, 2022	China	Taiwan	USA	Others	Total
Sales revenue	\$ 308,949	\$ 72,614	\$ 213,342	\$ 139,046	\$ 733,951
Six months ended June 30, 2023	China	Taiwan	USA	Others	Total
Sales revenue	\$ 615,105	\$ 124,029	\$ 392,884	\$ 246,308	\$ 1,378,326
Six months ended June 30, 2022	China	Taiwan	USA	Others	Total
Sales revenue	\$ 645,635	\$ 173,023	\$ 440,211	\$ 263,632	\$ 1,522,501

B. Contract assets and liabilities

(a) The Group has recognised the following revenue-related contract assets and liabilities:

	June 30, 2023	December 31, 2022	June 30, 2022	January 1, 2022
Contract liabilities:				
– Advance sales receipts	\$ 11,433	\$ 9,522	\$ 3,208	\$ 1,625

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

	Three months ended June 30,	
	2023	2022
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	\$ <u>324</u>	\$ <u>5</u>
	Six months ended June 30,	
	2023	2022
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	\$ <u>8,552</u>	\$ <u>1,477</u>

(17) Interest income

	Three months ended June 30,	
	2023	2022
Interest income from bank deposits	\$ 3,946	\$ 1,752
Interest income from financial assets at amortised cost	<u>471</u>	<u>67</u>
	\$ <u>4,417</u>	\$ <u>1,819</u>
	Six months ended June 30,	
	2023	2022
Interest income from bank deposits	\$ 4,944	\$ 3,344
Interest income from financial assets at amortised cost	<u>761</u>	<u>131</u>
	\$ <u>5,705</u>	\$ <u>3,475</u>

(18) Other income

	Three months ended June 30,	
	2023	2022
Rental income	\$ 12,449	\$ 12,433
Other income, others	<u>22,944</u>	<u>17,875</u>
	\$ <u>35,393</u>	\$ <u>30,308</u>
	Six months ended June 30,	
	2023	2022
Rental income	\$ 26,659	\$ 26,710
Other income, others	<u>61,066</u>	<u>26,872</u>
	\$ <u>87,725</u>	\$ <u>53,582</u>

(19) Other gains and losses

	Three months ended June 30,	
	2023	2022
Gains (losses) on disposals of property, plant and equipment	\$ 939	(\$ 744)
Net currency exchange gains	2,016	13,810
Depreciation-investment property	(638)	(639)
Other losses	(2,529)	377
	<u>(\$ 212)</u>	<u>\$ 12,804</u>

	Six months ended June 30,	
	2023	2022
Gains (losses) on disposals of property, plant and equipment	\$ 939	(\$ 744)
Net currency exchange gains	1,735	29,440
Depreciation-investment property	(1,277)	(1,278)
Other losses	(4,838)	(83)
	<u>(\$ 3,441)</u>	<u>\$ 27,335</u>

(20) Finance costs

	Three months ended June 30,	
	2023	2022
Interest expense	<u>\$ 6,940</u>	<u>\$ 2,559</u>

	Six months ended June 30,	
	2023	2022
Interest expense	<u>\$ 16,029</u>	<u>\$ 5,736</u>

(21) Expenses by nature

	Three months ended June 30,	
	2023	2022
Employee benefit expenses	\$ 239,083	\$ 248,342
Depreciation on property, plant and equipment (Note)	46,897	45,827
Amortisation on intangible assets	9,909	11,982

	Six months ended June 30,	
	2023	2022
Employee benefit expenses	\$ 476,872	\$ 529,143
Depreciation on property, plant and equipment (Note)	102,157	95,307
Amortisation on intangible assets	22,309	22,072

Note: Including investment property and right-of-use assets.

(22) Employee benefit expenses

	Three months ended June 30,	
	2023	2022
Wages and salaries	\$ 191,372	\$ 191,624
Labor and health insurance fees	13,832	14,785
Pension costs	7,822	10,019
Other personnel expenses	26,057	31,914
	<u>\$ 239,083</u>	<u>\$ 248,342</u>

	Six months ended June 30,	
	2023	2022
Wages and salaries	\$ 374,751	\$ 408,174
Labor and health insurance fees	29,532	33,106
Pension costs	17,545	20,997
Other personnel expenses	55,044	66,866
	<u>\$ 476,872</u>	<u>\$ 529,143</u>

- A. In accordance with Articles of Incorporation of the Company, employees' compensation and directors' remuneration shall be calculated based on a ratio of distributable profit of the current year, after covering accumulated losses. The ratio shall not be lower than 6% for employees' compensation and shall not be higher than 1.5% for directors' remuneration.
- B. For the three months and six months ended June 30, 2023 and 2022, employees' compensation were accrued at \$6,919, (\$1,525), \$11,612 and \$7,800, respectively; while directors' remuneration were accrued at \$470, (\$235), \$811 and \$1,200, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' remuneration were estimated based on distributable profit of current period, the estimated ratios are 15.72% and 1.10%, respectively. Employees' compensation and directors' remuneration for 2022 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2022 financial statements. Information about the employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System."

(23) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Three months ended June 30,	
	2023	2022
Current tax:		
Current tax on profits for the period	\$ 11,786	\$ 23,515
Prior year income tax overestimation	(9,694)	-
Total current tax	<u>2,092</u>	<u>23,515</u>
Deferred tax:		
Origination and reversal of temporary differences	(662)	(2,394)
Total deferred tax	(662)	(2,394)
Income tax expense	<u>\$ 1,430</u>	<u>\$ 21,121</u>

	Six months ended June 30,	
	2023	2022
Current tax:		
Current tax on profits for the period	\$ 25,762	\$ 45,857
Prior year income tax overestimation	(9,694)	-
Total current tax	<u>16,068</u>	<u>45,857</u>
Deferred tax:		
Origination and reversal of temporary differences	(396)	(529)
Total deferred tax	(396)	(529)
Income tax expense	<u>\$ 15,672</u>	<u>\$ 45,328</u>

(b) The income tax charged/(credited) to equity during the period: None.

B. The Company's income tax returns through 2019 have been assessed and approved by the Tax Authority.

	Six months ended June 30, 2022		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
	<u>Amount after tax</u>	<u>(shares in thousands)</u>	<u>(in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 42,946	85,645	\$ 0.50

For the three months and six months ended June 30, 2023, the convertible bonds had anti-dilutive effect, thus, it was not included in the calculation of diluted earning (loss) per share.

For the three months and six months ended June 30, 2022, the Company's issued employee stock options and convertible bonds had anti-dilutive effect, thus, they were not included in the calculation of diluted earning (loss) per share.

(25) Supplemental cash flow information

Investing activities with partial cash payments:

	Six months ended June 30,	
	2023	2022
Acquisition of property, plant and quipment	\$ 43,962	\$ 129,534
Net change of payable on machinery and equipment	2,150	10,742
Net change of prepayments on machinery and equipment	462	(51,844)
Cash paid during the period	\$ 46,574	\$ 88,432

(26) Changes in liabilities from financing activities

	2023				
	Short-term borrowings	Lease liabilities	Bonds payable	Deposits-in	Total liabilites from financing activites
At January 1	\$ 508,933	\$ 190,877	\$ 260,504	\$ 11,043	\$ 971,357
Changes in cash flow from financing activities	24,147	(5,540)	-	-	18,607
Interest expense	-	1,406	2,090	-	3,496
Interest paid	-	(1,406)	-	-	(1,406)
Changes in other non- cash items	(12,442)	14,730	-	-	2,288
At June 30	<u>\$ 520,638</u>	<u>\$ 200,067</u>	<u>\$ 262,594</u>	<u>\$ 11,043</u>	<u>\$ 994,342</u>

	2022				
	Short-term borrowings	Lease liabilities	Bonds payable	Deposits-in	Total liabilities from financing activities
At January 1	\$ 805,983	\$ 197,968	\$ 256,375	\$ 10,663	\$ 1,270,989
Changes in cash flow from financing activities	(429,565)	(5,422)	-	-	(434,987)
Interest expense	-	1,392	2,056	-	3,448
Interest paid	-	(1,392)	-	-	(1,392)
Changes in other non-cash items	16,459	3,105	-	-	19,564
At June 30	<u>\$ 392,877</u>	<u>\$ 195,651</u>	<u>\$ 258,431</u>	<u>\$ 10,663</u>	<u>\$ 857,622</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
Littelfuse, Inc.	A Board of Director of the Company

(2) Significant related party transactions and balances

A. Operating revenue

	Three months ended June 30,	
	2023	2022
Sales of goods:		
Other related parties	<u>\$ 54,717</u>	<u>\$ 89,629</u>
	Six months ended June 30,	
	2023	2022
Sales of goods:		
Other related parties	<u>\$ 100,900</u>	<u>\$ 181,375</u>

There are no significant differences in sales prices and collection terms between related parties and third parties.

B. Accounts receivable

	June 30, 2023	December 31, 2022	June 30, 2022
Accounts receivable			
Other related parties	<u>\$ 55,510</u>	<u>\$ 41,389</u>	<u>\$ 90,668</u>

The receivables from related parties arise mainly from sale transactions. The receivables are due 90 days after the date of sale. The receivables are unsecured in nature and bear no interest.

(3) Key management personnel compensation

	Three months ended June 30,	
	2023	2022
Short-term employee benefits	\$ 15,765	\$ 9,335
Post-employment benefits	381	380
	<u>\$ 16,146</u>	<u>\$ 9,715</u>

	Six months ended June 30,	
	2023	2022
Short-term employee benefits	\$ 32,949	\$ 23,761
Post-employment benefits	761	749
	<u>\$ 33,710</u>	<u>\$ 24,510</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value			Purpose
	June 30, 2023	December 31, 2022	June 30, 2022	
Time deposit (shown as "Current financial assets at amortised cost")	\$ 120,039	\$ 119,999	\$ 113,199	Guarantee for customs and bond, performance guarantee and company card guarantee
demand deposit (shown as "Current financial assets at amortised cost")	27,100	-	-	Guarantee for short-term borrowing credit line
Time deposit (shown as "Non-current financial assets at amortised cost")	6,926	6,926	6,926	Guarantee for land lease in science park
Buildings and investment property	185,626	187,876	190,127	Guarantee for short-term borrowing credit line

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

	June 30, 2023	December 31, 2022	June 30, 2022
Property, plant and equipment	<u>\$ 15,744</u>	<u>\$ 9,996</u>	<u>\$ 33,778</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital, issue new shares or dispose assets to reduce its liabilities.

(2) Financial instruments

A. Financial instruments by category

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
<u>Financial assets</u>			
Financial assets at amortised cost			
Cash and cash equivalents	\$ 1,054,658	\$ 1,102,816	\$ 780,867
Financial assets at amortised cost	126,965	126,925	120,125
Notes receivable	144,360	196,930	164,219
Accounts receivable			
(including related parties)	556,867	479,545	588,360
Other receivables	22,470	24,528	21,166
Refundable deposits	10,759	11,130	10,879
	<u>\$ 1,916,079</u>	<u>\$ 1,941,874</u>	<u>\$ 1,685,616</u>
	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
<u>Financial liabilities</u>			
Financial liabilities at amortised cost			
Short-term borrowings	\$ 520,638	\$ 508,933	\$ 392,877
Notes payable	39,642	50,666	45,603
Accounts payable	170,577	173,287	228,101
Other payables	196,297	293,322	249,743
Bond payable			
(including current portion)	262,594	260,504	258,431
Deposits-in	11,043	11,043	10,663
	<u>\$ 1,200,791</u>	<u>\$ 1,297,755</u>	<u>\$ 1,185,418</u>
Lease liabilities	<u>\$ 200,067</u>	<u>\$ 190,877</u>	<u>\$ 195,651</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.

- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries using various functional currencies, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policies to require group companies to manage their foreign exchange risk against their functional currencies. The companies are required to hedge their entire foreign exchange risk exposure through coordination with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Foreign exchange forward contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	June 30, 2023			
	Foreign currency		Exchange	Book value
	amount		rate	(NTD)
	(in thousands)		rate	(NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	USD	10,876	31.140	\$ 338,666
USD:RMB	USD	158	7.2620	4,920
RMB:NTD	RMB	832	4.282	3,563
<u>Non-monetary items: None.</u>				
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	USD	228	31.140	\$ 7,108
USD:RMB	USD	142	7.2620	4,406
<u>Non-monetary items: None.</u>				

December 31, 2022					
Foreign currency					
		amount	Exchange	Book value	
		(in thousands)	rate	(NTD)	
(Foreign currency: functional currency)					
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	7,814	30.710	\$	239,962
USD:RMB	USD	336	6.9514		10,283
RMB:NTD	RMB	11,813	4.408		52,073
<u>Non-monetary items: None.</u>					
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	124	30.710	\$	3,804
JPY:NTD	JPY	5,635	0.2324		1,309
<u>Non-monetary items: None.</u>					

June 30, 2022					
Foreign currency					
		amount	Exchange	Book value	
		(in thousands)	rate	(NTD)	
(Foreign currency: functional currency)					
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	13,161	29.720	\$	391,143
USD:RMB	USD	1,615	6.6943		47,993
RMB:NTD	RMB	10,181	4.439		45,195
<u>Non-monetary items: None.</u>					
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	318	29.720	\$	6,940
<u>Non-monetary items: None.</u>					

- iv. The total exchange (losses) gain, including realised and unrealised arising from significant foreign exchange variations on the monetary items held by the Group for the three months and six months ended June 30, 2023 and 2022, amounted to \$2,016, \$13,810, \$1,735 and \$29,440, respectively.

v. Analysis of foreign currency market risk arising from significant foreign exchange variations:

Six months ended June 30, 2023			
Sensitivity analysis			
	<u>Degree of variation</u>	<u>Effect on profit (loss)</u>	<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 3,387	\$ -
USD:RMB	1%	49	-
RMB:NTD	1%	36	-
<u>Non-monetary items: None.</u>			
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 71)	\$ -
USD:RMB	1%	(44)	-
<u>Non-monetary items: None.</u>			

Six months ended June 30, 2022			
Sensitivity analysis			
	<u>Degree of variation</u>	<u>Effect on profit (loss)</u>	<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 3,911	\$ -
USD:RMB	1%	480	-
RMB:NTD	1%	452	-
<u>Non-monetary items: None.</u>			
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 69)	\$ -
<u>Non-monetary items: None.</u>			

Price risk

The Group's investments in equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- iv. The Group adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:
If the contract payments were past due over 60 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. If the credit rating grade of an investment target degrades two scales, there has been a significant increase in credit risk on that instrument since initial recognition.
- vi. The Group classifies customers' accounts receivable, contract assets and rents receivable in accordance with customer types. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- vii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter into bankruptcy or other financial reorganisation due to financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- viii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable, contract assets and lease payments receivable. On June 30, 2023, December 31, 2022 and June 30, 2022, the provision matrix is as follows:

	<u>Not past due</u>	<u>Up to 30 days past due</u>	<u>31~90 days past due</u>	<u>91~180 days past due</u>	<u>Over 180 days</u>	<u>Total</u>
<u>At June 30, 2023</u>						
Expected loss rate	0.01%	0.06%~1.09%	0.76%~20.06%	1.77%~30.66%	9.16%~100%	
Total book value	\$ 489,132	\$ 49,143	\$ 18,458	\$ 3,166	\$ 16,970	\$ 576,869
Loss allowance	\$ -	\$ -	\$ 42	\$ 2,990	\$ 16,970	\$ 20,002
<u>At December 31, 2022</u>						
Expected loss rate	0.01%	0.32%~1.07%	2.35%~20.27%	14.33%~30.06%	93.61%~100%	
Total book value	\$ 441,153	\$ 28,167	\$ 6,216	\$ 950	\$ 22,263	\$ 498,749
Loss allowance	\$ -	\$ -	\$ 18	\$ 19	\$ 19,167	\$ 19,204
<u>At June 30, 2022</u>						
Expected loss rate	0.01%	0.33%~1.12%	2.45%~21.15%	14.83%~30.58%	89.88%~100%	
Total book value	\$ 561,382	\$ 20,051	\$ 5,941	\$ 4,598	\$ 15,629	\$ 607,601
Loss allowance	\$ -	\$ -	\$ 3,184	\$ 542	\$ 15,515	\$ 19,241

ix. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable and notes receivable is as follows:

	<u>2023</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
At January 1	\$ 19,204	\$ -
Provision for impairment	1,359	-
Effect of foreign exchange	(561)	-
At June 30	<u>\$ 20,002</u>	<u>\$ -</u>
	<u>2022</u>	
	<u>Accounts receivable</u>	<u>Notes receivable</u>
At January 1	\$ 18,366	\$ -
Reversal of impairment loss	451	-
Effect of foreign exchange	424	-
At June 30	<u>\$ 19,241</u>	<u>\$ -</u>

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements, for example, currency restrictions.

ii. The Group has the following undrawn borrowing facilities:

	<u>June 30, 2023</u>	<u>December 31, 2022</u>	<u>June 30, 2022</u>
Floating rate:			
Expiring within one year	\$ <u>1,299,120</u>	\$ <u>647,495</u>	\$ <u>1,164,017</u>

The facilities expiring within one year are annual facilities subject to review and renegotiation at various dates during 2023.

iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

	Less than 3	Between 3	Between 1	Between 2	Over
June 30, 2023	<u>months</u>	<u>months</u>	<u>and 2 years</u>	<u>and 5 years</u>	<u>5 years</u>
Short-term borrowings	\$327,218	\$ 193,420	\$ -	\$ -	\$ -
Notes payable	39,642	-	-	-	-
Accounts payable	-	170,577	-	-	-
Lease liabilities	3,482	9,088	10,170	27,931	200,942
Other payables	-	196,297	-	-	-
Bonds payable	-	264,700	-	-	-
Deposits-in	-	-	11,043	-	-

Non-derivative financial liabilities:

	Less than 3	Between 3	Between 1	Between 2	Over
December 31, 2022	<u>months</u>	<u>months</u>	<u>and 2 years</u>	<u>and 5 years</u>	<u>5 years</u>
Short-term borrowings	\$408,933	\$ 100,000	\$ -	\$ -	\$ -
Notes payable	50,666	-	-	-	-
Accounts payable	-	173,287	-	-	-
Lease liabilities	2,659	6,959	6,665	19,996	204,275
Other payables	-	293,322	-	-	-
Bonds payable	-	-	264,700	-	-
Deposits-in	-	-	11,043	-	-

Non-derivative financial liabilities:

June 30, 2022	Less than 3 months	Between 3			Over 5 years
		months and 1 year	Between 1 and 2 years	Between 2 and 5 years	
Short-term borrowings	\$ 229,717	\$ 163,160	\$ -	\$ -	\$ -
Notes payable	45,603	-	-	-	-
Accounts payable	-	228,101	-	-	-
Lease liabilities	3,362	8,829	9,083	21,011	207,608
Other payables	-	249,743	-	-	-
Bonds payable	-	-	264,700	-	-
Deposits-in	-	-	10,663	-	-

(3) Fair value information

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

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

	June 30, 2023			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable	\$ 262,594	\$ -	\$ 255,171	\$ -
	December 31, 2022			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable	\$ 260,504	\$ -	\$ 255,171	\$ -

	June 30, 2022			
	<u>Book value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial liabilities:				
Bonds payable	\$ 258,431	\$ -	\$ 255,171	\$ -

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

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

(2) Information on investees

Names, locations and other information of investee companies (not including investees in mainland China): Please refer to table 5.

(3) Information on investments in mainland China

- A. Basic information: Please refer to table 6.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the mainland China: Please refer to table 7.

(4) Major shareholders information

Major shareholders information: Please refer to table 8.

14. SEGMENT INFORMATION

(1) General information

The Group mainly operates in a single industry. The Chief Operating Decision-Maker reviews the Group's reporting to assess performance and allocate resources. The Group mainly has only one reportable segment.

(2) Segment information

The Group's Chief Operating Decision-Maker evaluates the performance of the operating segment based on the consolidated financial statements. The accounting policies of the operating segment are

in line with the significant accounting policies summarised in Note 4.

(3) Information about segment profit or loss, assets and liabilities

	Six months ended June 30,	
	2023	2022
Revenue from external customers	\$ 1,378,326	\$ 1,522,501
Inter-segment revenue	\$ -	\$ -
Segment income	\$ 11,662	(\$ 24,507)
Segment assets	\$ 4,346,731	\$ 4,509,318

(4) Reconciliation for segment income (loss), assets and liabilities

None.

Polytronics Technology Corp. and Subsidiaries

Loans to others
Six months ended June 30, 2023

Table 1

Expressed in thousands of NTD
(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the six-month period ended June 30, 2023	Balance at June 30, 2023	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note)	Ceiling on total loans granted (Note)	Footnote
													Item	Value			
0	Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	Other receivables - related party	Y	\$ 88,900	\$ 85,640	\$ -	4.35%	Short-term financing	\$ -	Operational need	\$ -	-	\$ -	\$ 1,008,736	\$ 1,008,736	
0	Polytronics Technology Corp.	TCLAD Technology Corporation	Other receivables - related party	Y	124,560	124,560	93,420	5.05%~5.21%	Short-term financing	-	Operational need	-	-	-	1,008,736	1,008,736	
1	TCLAD Technology Corporation	TCLAD Inc.	Other receivables - related party	Y	243,840	124,560	-	5.92%	Short-term financing	-	Operational need	-	-	-	290,976	290,976	
1	TCLAD Technology Corporation	TCLAD Europe GmbH	Other receivables - related party	Y	62,280	62,280	24,600	2.25%	Short-term financing	-	Operational need	-	-	-	290,976	290,976	

Note : Follow the group policy “Procedure for Provision of Loans”.

Polytronics Technology Corp. and Subsidiaries
Provision of endorsements and guarantees to others
Six months ended June 30, 2023

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of June 30, 2023	Outstanding endorsement/ guarantee amount at June 30, 2023	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note)	Provision of endorsements/ guarantees by parent company to subsidiary (Note)	Provision of endorsements /guarantees by subsidiary to parent company (Note)	Provision of endorsements/ guarantees to the party in mainland China (Note)
		Company name	Relationship with the endorser/ guarantor										
0	Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	100% owned subsidiary	\$ 2,521,839	\$ 165,042	\$ 165,042	\$ 24,017	\$ 27,100	6.54	\$ 3,782,758	Y	N	Y
0	Polytronics Technology Corp.	TCLAD Technology Corporation	A subsidiary which had 56.27% equity interests directly owned by the Company	2,521,839	742,220	543,420	110,000	100,000	21.55	3,782,758	Y	N	N
0	Polytronics Technology Corp.	TCLAD Inc.	A subsidiary which had 56.27% equity interests indirectly owned by the Company	2,521,839	420,390	420,390	140,130	-	16.67	3,782,758	Y	N	N

Note : Follow the company policy “Procedure for Provision of Endorsements and Guarantees to Others”.

Polytronics Technology Corp. and Subsidiaries
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more
Six months ended June 30, 2023

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction			Differences in transaction terms compared to third party transactions			Notes/accounts receivable (payable)		Footnote
			Purchases (Sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
Polytronics Technology Corp.	Liffelfuse, Inc.	Director of the Company	Sales	(\$ 100,900)	7%	Net 90 days	Note	Note	\$ 55,510	8%	
Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	Subsidiary	Sales	(114,378)	8%	Net 60 days	Note	Note	35,635	5%	

Note : With the general payment term.

Polytronics Technology Corp. and Subsidiaries
Significant inter-company transactions during the reporting period
Six months ended June 30, 2023

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
0	Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	1	Sales	\$ 114,378	Net 60 days	8%
0	"	"	1	Purchases	40,245	Net 45 days	3%
0	"	"	1	Processing charges	20,080	Net 45 days	1%
0	"	"	1	Accounts receivable	35,635	Net 60 days	1%
0	"	"	1	Accounts payable	8,680	Net 45 days	0%
0	"	TCLAD Technology Corporation	1	Other receivables	94,420	Collection and payment based on an agreed time	2%
1	TCLAD Technology Corporation	TCLAD Inc.	3	Purchases	61,537	Net 30 days	4%
1	"	TCLAD Europe GmbH	3	Other receivables	25,423	Collection and payment based on an agreed time	1%
1	"	"	3	Sales	8,601	Net 30 days	1%
2	TCLAD Inc.	TCLAD Europe GmbH	3	Sales	41,964	Net 30 days	3%
2	"	"	3	Accounts receivable	22,433	Net 30 days	1%

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

(1) Parent company is '0'.

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

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

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Polytronics Technology Corp. and Subsidiaries

Information on investees

Six months ended June 30, 2023

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2023			Net profit (loss)	Investment income (loss)	Footnote
				Balance as at June 30, 2023	Balance as at December 31, 2022	Number of shares	Ownership (%)	Book value	of the investee for the six months period ended June 30, 2023	recognised by the Company for the six months period ended June 30, 2023	
Polytronics Technology Corp.	Polytronics (B.V.I.) Corporation	British Virgin Islands	Investment and general business operations	\$ 255,004	\$ 255,004	2,644	100	\$ 1,027,242	\$ 684	\$ 684	Subsidiary
Polytronics Technolgy Corp.	TCLAD Technology Corporation	Taiwan	Manufacturing of the thermal conductive board	759,690	759,690	16,882	56.27	409,356 (	107,729) (	60,623)	Subsidiary
Polytronics Technolgy Corp.	PolyTCB Electronics Corporation	Taiwan	Electronic Parts and Components Manufacturing; Wholesale of Electronic Materials	1,000	1,000	100,000	100	968 (	16) (	16)	Subsidiary
TCLAD Technology Corporation	TCLAD Inc.	America	Manufacturing of the thermal conductive board	1,286,736	1,286,736	-	100	795,025 (	86,634) (	92,550)	Subsidiary
TCLAD Technology Corporation	TCLAD Eurpoe GmbH	Germany	Manufacturing of the thermal conductive board	5,732	5,732	170	85	22,559 (	3,155) (	2,846)	Subsidiary

Table 5

Polytronics Technology Corp. and Subsidiaries
Information on investments in Mainland China
Six months ended June 30, 2023

Table 6

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to mainland China as of January 1, 2023	Amount remitted from Taiwan to mainland China/ amount remitted back to Taiwan for the six months period ended June 30, 2023		Accumulated amount of remittance from Taiwan to mainland China as of June 30, 2023	Net income of investee for the six months period ended June 30, 2023	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the six months period ended June 30, 2023 (Note 3)	Book value of investments in mainland China as of June 30, 2023	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2023	Footnote
				(Note 2)	Remitted to mainland China	Remitted back to Taiwan	2023					June 30, 2023	
Kunshan Polystar Electronics Co., Ltd. (Note 2)	Production and sale of varistor and potentiometer	\$ 677,686	2	\$ 201,164	\$ -	\$ -	\$ 201,164	(\$ 522)	100	(\$ 522)	\$ 1,011,769	\$ -	
PolyStellar Electronics Co., Ltd.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	85,946	3	-	-	-	-	972	100	972	89,020	-	
Suzhou TCLAD Electronic Technology Co., Ltd	Manufacturing of the thermal conductive board	4,305	1	4,305	-	-	4,305	-	100	-	4,282	-	
Company name	Accumulated amount of remittance from Taiwan to mainland China as of June 30, 2023	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in mainland China imposed by the Investment Commission of MOEA										
Polytronics Technology Corp.	\$ 201,164	\$ 677,686	\$ 1,513,103										

Note 1: Investment methods are classified into the following six categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in mainland China.
- (3) Others

Note 2: Including retained earnings capitalized of RMB\$89,286 and RMB\$16,964 (In thousands of dollars).

Note 3: Investment income (loss) were recognized based on the financial statements reviewed by R.O.C. parent company's CPA.

Note 4: Under the 'Regulations Governing the Permission of Investment or Technical Cooperation in mainland Area', ceiling of accumulated investment in mainland China may not exceed 60% of the net assets .

Note 5: Mainland China's investees information are translated using the exchange rates of USD:NTD = 1:30.558 and RMB:TWD = 1:4.400 for recognised investment income (loss) and remaining using the exchange rates of USD:NTD=1:31.140 and RMB:TWD = 1:4.297.

Polytronics Technology Corp. and Subsidiaries

Significant transactions conducted with investees in mainland China directly or indirectly through other companies in the third areas

Six months ended June 30, 2023

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in mainland China	Sales (purchase)		Accounts receivable (payable)		Financing			Others-processing charges		
	Amount	%	Balance at June 30, 2023	%	Maximum balance during the six months period ended June 30, 2023	Balance at June 30, 2023	Interest rate	Interest during the six months period ended June 30, 2023	Balance at June 30, 2023	%
Kunshan Polystar Electronics Co., Ltd.	\$ 114,378	8.30%	\$ 35,635	5.80%	\$ -	\$ -	4.35%	\$ -	\$ -	-
Kunshan Polystar Electronics Co., Ltd.	(40,245)	14.75%	(8,680)	5.09%	-	-	-	-	(20,080)	19.28%

Polytronics Technology Corp. and Subsidiaries

Major shareholders information

June 30, 2023

Table 8

Name of major shareholders	Shares	
	Number of shares held	Ownership (%)
Everlight Chemical Industrial Corp.	8,000,000	9.34%
Littlefuse Europe GmbH	4,600,350	5.37%