

Stock Code: 3067

Phonic Corporation

2023 Annual Report

May 10, 2024

Inquiry website: <https://mops.twse.com.tw>

<https://www.twphonic.com>

I. Spokesperson of the Company:

Name: Kao Wei-Hung

Title: Assistant Vice-President

Contact number: (02) 2659-2166

Email address: ir@twphonic.com

Deputy Spokesperson:

Name: Pi-Chi Shen

Title: Special Assistant

Contact number: (02) 2659-2166

E-mail: ir@twphonic.com

II. Address and Telephone Number of Headquarter, Branches and Plants:

Headquarters

Address: 6F-1, No. 36, Alley 38, Lane 358, Ruiguang Road, Neihu District, Taipei City 114, Taiwan

Telephone: (02) 2569-2166

Branches: None.

Factories: None.

III. Name, Address, Website and Telephone Number of Stock Transfer Agent:

Name: Yuanta Securities Co., Ltd

Address: B1, No. 210, Section 3, Chengde Road, Datong District, Taipei City 103, Taiwan

Website: <http://www.yuanta.com.tw>

Telephone: (02) 2586-5859

IV. Name, Firm Name, Address, Website, and Telephone Number of CPAs for the Most Recent Financial Reports:

Name of CPAs: Chia-Hsiang Wang, Ching-Chuan Toh

CPA firm: Crowe (TW) CPAs

Address: 7F., No. 122, Dunhua North Road, Songshan District, Taipei City 105, Taiwan

Website: <http://www.crowe.tw>

Tel: (02) 8770-5181

V. Name of any exchange where the Company's securities are traded overseas, and the method by which to access information on the overseas securities: Not applicable.

VI. Company website: <https://www.twphonic.com>

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One. Report to Shareholders

Dear shareholders,

First of all, I would like to thank all the shareholders for taking the time to participate in the 2024 Shareholders' Annual General Meeting. At the same time, I would like to thank all the shareholders for your love and support of the Company.

The 2023 business overview and outlook of this year are hereby reported as follows:

I. 2023 Business Report

(I) Business Plan Implementation Results

In 2023, the consolidated operating revenue was NT\$170,925 thousand, and the net consolidated non-operating revenue NT\$2,771 thousand. The 2023 consolidated operating costs and expenses totaled NT\$144,822 thousand, the consolidated net profit before tax was NT\$28,874 thousand, the consolidated net profit after tax NT\$23,479 thousand and the consolidated earnings per share after tax NT\$1.17.

(II) Budget Execution

The Company did not announce financial forecast for 2023 and hence not applicable.

(III) Financial income and expenditure

Unit: NTD thousands

| Item | 2022 | 2023 |
|--|---------|-----------|
| Consolidated net cash inflow from operating activities | 21,487 | 14,663 |
| Consolidated net cash inflows (outflows) from investing activities | (352) | (106,017) |
| Net cash inflows (outflows) from consolidated financing activities | (3,791) | (3,844) |

(IV) Profitability analysis

Unit: NTD thousands

| Item | 2022 | 2023 |
|--|--------|-------|
| Return on assets (%) | (1.99) | 6.66 |
| Return on equity (%) | (2.79) | 9.14 |
| Operating loss to paid-in capital ratio (%) | (3.30) | 13.05 |
| Income before tax to paid-in capital ratio (%) | (2.09) | 14.44 |
| Net profit margin (%) | (7.11) | 13.74 |
| Earnings per share (NTD) | (0.35) | 1.17 |

(V) Research and development status

Continue the development and optimization of fully automated digital products, audio and video products with streaming media functions and portable audio system products.

II. Summary of 2024 Business Plan

(I) Business policy:

1. Consolidate the existing markets at home and abroad, and continue to develop new customer sources.
2. Effectively explore market information and pro-actively promote various applications that are close to customers' needs.
3. Optimize the functions and price/performance ratio of existing products, increase the shipments of high-margin products and sales portfolios, in order to improve the Company's overall profitability.

(II) Expected sales volume and basis:

Not applicable, as the Company is not required to announce financial forecasts for 2024.

(III) Important production and distribution policies:

1. Gain an in-depth understanding of market demand, establish a niche for product differentiation and improve the brand image.

2. Effectively integrate and optimize sales channels in accordance with sales strategies.
3. Improve the flexibility and efficiency of the production process and supply chain.

III. Future development strategies of the Company

In the post-pandemic era, countries all over the world have entered the stage when the lockdown policy is lifted completely. Various entertainment consumption activities and large-scale mass events are also returning to the level before the pandemic, and the consumption is growing too. The Company will also verify the changes in market demand and stay close to consumers' daily entertainment needs and pro-actively launch competitive products to effectively seize the business opportunities in the existing and potential markets and expand its market share.

Meanwhile, as the problems and impact brought about by climate change are increasingly exacerbated, fresh water resources are becoming depleted day by day. Therefore, countries all over the world are striving to find the solutions that can keep water resources clean and sustainable. One of the 2030 Sustainable Development Goals proposed by the United Nations refers to SDG6, which seeks to ensure safe drinking water and sanitation for all and the sustainable management thereof. According to the statistics of Markets and Markets, an international market survey organization, the global smart water resource management market scale will reach US\$22.4 billion in 2026, with the CAGR by more than 10%. Looking forward to the future, the Company will continue to expand the business domain related to water resources, provide users with the best experience of pure water and enable clean water resources to be delivered to every corner of the world.

IV. Impacts of the external competitive environment, regulatory environment and overall business environment

Since 2023, the global market has been affected by the continuing uncertainties such as the economic slowdown between the United States and China and war conflicts. Enterprises need to keep changing their existing business models to maintain competitiveness and also investing resources to promote sustainable development. In the future, the Company will take into account the principles of both safe operations and sustainable growth, in order to increase the Company's profit and feed back to all shareholders for their care and support. Meanwhile, the Company also hopes to contribute to the global clean, safe water supply and the sustainable management thereof.

Finally, I wish all shareholders

Good health and all the best

Chairman: Chou Ching-Wen
General Manager: Chou Ching-Wen
Accounting Manager: Kao Wei-Hung

Two. Company Profile

I. Date of incorporation

November 22, 1973

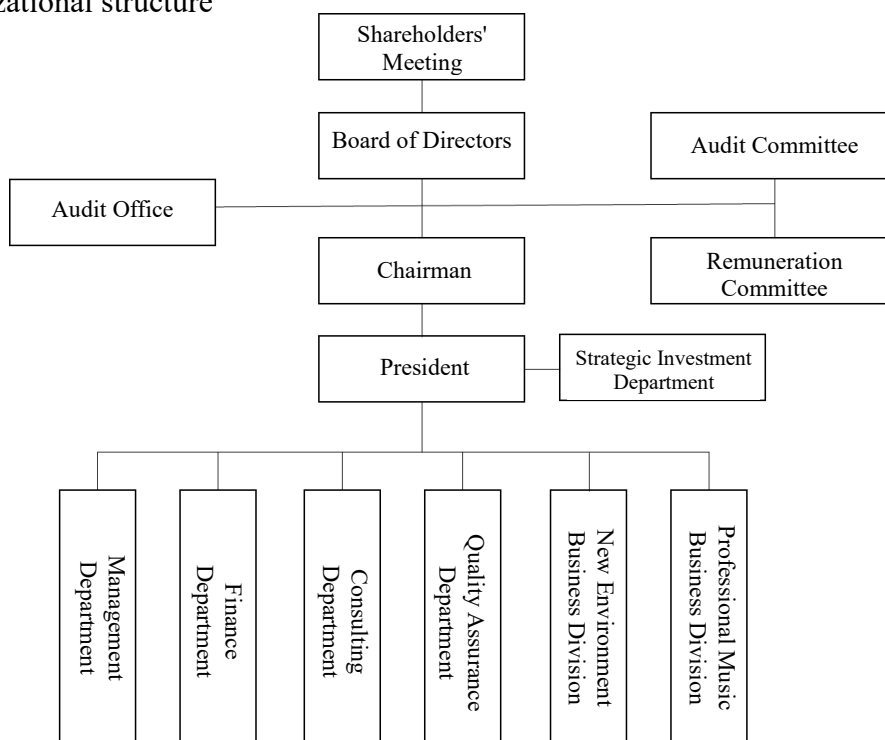
II. Company history

- 1973 The Company was registered at Wenchang Street, Taipei City, with a capital of NT\$1,000 thousand.
- 1976 Capital increase to NT\$5,000 thousand.
- 1982 Capital increase to NT\$10,000 thousand.
- 1986 Recognized by Yamaha, technology transfer and OEM cooperation began.
- 1988 Purchased the plant at Xinghua Road in Guishan Industrial Park, Taoyuan; increase the capital to NT\$30,000 thousand.
- 1989 Expansion of plant and purchase of 5,600 pings of land in Haihu Industrial Zone to increase capital to NT\$100,000 thousand.
- 1990 Capital increase to NT\$150,000 thousand.
- 1992 Approved the supplementary public issuance of stocks.
- 1995 Purchased the office building on Dongxing Road, Taipei City. Establish PHONIC's own brand of professional audio.
- 2000 Capitalization of surplus and capital reserve and the capital increase to NT\$176,000 thousand.
- 2001 Capitalization of earnings to increase the paid-in capital to NT\$203,615 thousand.
- 2002 Capitalization of earnings to increase the paid-in capital to NT\$236,066 thousand.
- 2003 Capitalization of earnings to increase the paid-in capital to NT\$252,660 thousand. Listed on the GreTai Securities Market (TPEX) in October.
- 2004 Capitalization of earnings to increase the paid-in capital to NT\$290,252 thousand.
- 2016 Commencement of marketing and distribution of the new brand A systems worldwide.
- 2020 The Company's corporate director and major shareholder had transferred their shares, resulting in Taiwan Union Technology Corporation directly or indirectly acquired more than 50% of the Company's total outstanding shares with voting rights and control rights.
- 2021 Conducted a capital reduction to offset a loss of NT\$90,252 thousand, and the paid-in capital was changed to NT\$200,000 thousand.
- 2023 Signed a general agency contract with EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. to gradually develop the water resource market, and reinvested 21.6% of the equity of EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD..

Three. Corporate Governance Report

I. Organizational system

(1) Organizational structure



(2) Businesses of each department

| Department | Task and Responsibility |
|--------------------------------------|---|
| Strategic Investment Department | Planning of the Company's investment strategy and execution of duties under the orders of the President. |
| Audit Office | Assess and trace the soundness, reasonableness and effectiveness of the Company's internal control system and various management systems. |
| Management Department | <ol style="list-style-type: none"> 1. Planning and management of human resources, education and training. 2. Planning for the selection, employment, remuneration and reward system of personnel. 3. Company administration and general affairs. |
| Finance Department | <ol style="list-style-type: none"> 1. Manage, plan and execute the Company's capital. 2. Handling of the Company's accounting affairs and preparation of management reports for decision-making and analysis. 3. Taxation and cost control planning and management. 4. Corporate governance, share registration and board of directors related affairs. |
| Information Department | <ol style="list-style-type: none"> 1. Plan and manage the company's computer network equipment. 2. Information system maintenance and information security control management planning. |
| Quality Assurance Department | Promote the implementation and management of the Company's quality assurance, inspection, and improve product quality to achieve quality standards. |
| New Environment Business Division | Planning and business promotion of new environmental business products. |
| Professional Audio Business Division | Product R&D and design, marketing planning and business promotion of professional audio products. |

II. Directors, President, Vice Presidents, Assistant Vice-Presidents and Heads of Departments and Branches

(I) Profiles of Directors

1. Profiles of Directors

April 22, 2024

| Job Title | Nationality or place of registration | Name | Gender Age | Date of Election (Inauguration) | Term of office | Date of initial election | Shareholdings at the time of appointment | | Current shareholdings | | Shares held by spouse and underage children | | Shares held in someone else's name | | Main experience (academic) | Positions in the Company and other companies | Other supervisors, directors, or supervisors who are spouses or relatives within 2nd degree kinship | | Remarks |
|-----------|--------------------------------------|--|---------------|------------------------------------|----------------|---------------------------|--|--------------------|------------------------------|--------------------|---|--------------------|------------------------------------|--------------------|--|--|---|--------------|---------|
| | | | | | | | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | | | Job Title | Name | |
| Chairman | Republic of China | Kang Jian Investment Co., Ltd. Representative: Chou Ching-Wen | Male 50-60 | 2021.02.24 *2021.02.24 | 3 | 2002.10.20 *2020.12.25 | 10,934,811 *0 | 37.67 *0 | 11,636,315 (Note 1) *0 | 58.18 *0 | 0 0 | 0 0 | 0 0 | 0 | MBA, The Wharton School, USA | Also serves as the President of the Company Chairman, TAIWAN POWDER TECHNOLOGIES CO., LTD. Chairman, Kang Jian Investment Co., Ltd. Director, Tai-Ling Biotech, Inc. Chairman, Kang Yao Investment Co., Ltd. | None None | None None | Note 5 |
| Director | Republic of China | Kang Jian Investment Co., Ltd. Representative: Yao Tian-Chi (Note 4) | Male 50-60 | 2021.02.24 *2024.01.31 | 3 | 2002.10.20 *2024.01.31 | 10,934,811 *0 | 37.67 *0 | 11,636,315 (Note 1) *0 | 58.18 *0 | 0 0 | 0 0 | 0 0 | 0 | National Institute of Technology Director, CASING MACRON TECHNOLOGY CO., LTD. Taipei Chairman, EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. Chairman, HUNG HSI INTERNATIONAL DEVELOPMENT LIMITED COMPANY | None None | None None | None | |

| Job Title | Nationality or place of registration | Name | Gender Age | Date of Election (Inauguration) | Term of office | Date of initial election | Shareholdings at the time of appointment | | Current shareholdings | | Shares held by spouse and underage children | | Shares held in someone else's name | | Main experience (academic) | Positions in the Company and other companies | Other supervisors, directors, or supervisors who are spouses or relatives within 2nd degree kinship | | Remarks | |
|-----------|--------------------------------------|--|---------------|---------------------------------|----------------|---------------------------|--|--------------------|--|--------------------|---|--------------------|------------------------------------|--------------------|--|--|---|------|---------|--------------|
| | | | | | | | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | | | Job Title | Name | | Relationship |
| Director | Republic of China | Kang Jian Investment Co., Ltd. Representative: Wang Min-Lieh | Male 70-80 | 2021.02.24 *2021.02.24 | 3 | 2002.10.20 *1976.09.29 | 10,934,811 *1,671,611 | 37.67 *5.76 | 11,636,315 (Note 1) *1,151,832 (Note 1) | 58.18 *5.76 | 0 0 | 0 0 | 0 0 | 1.86 | Taiwan Electrical and Electronic Manufacturers' Association - Policy Consultant of Department of Electronic Engineering, Chung Yuan Christian University Graduate Institute of Business Administration, University of Oklahoma City Entrepreneurship Institute of National Chengchi University | Director, FIL TTECK CO., LTD. Also concurrently serves as the Supervisor of the Company's Professional Audio Business Unit. Chairman, Investment Corp. Chairman, curaFUN Asia Corporation | None | None | None | Note 5 |
| Director | Republic of China | Kang Jian Investment Co., Ltd. Representative: Wu Hsin-Kai (Note 2 and Note 3) | Male 50-60 | 2021.02.24 *2023.10.30 | 3 | 2002.10.20 *2023.10.30 | 10,934,811 *0 | 37.67 *0 | 11,636,315 (Note 1) *0 | 58.18 *0 | 0 0 | 0 0 | 0 0 | | Department of Business Administration, Tamkang University Director, DIRECTCURRENT CO., LTD. Chairman, BROAD SKY TECHNOLOGY CO., LTD. Chairman, Sang Guo Investment Ltd. Director, EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. Director, CASING MACRON | Chairman, BROAD SKY TECHNOLOGY CO., LTD. Chairman, Sang Guo Investment Ltd. Director, EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. Director, CASING MACRON | None | None | None | |

| Job Title | Nationality or place of registration | Name | Gender Age | Date of Election (Inauguration) | Term of office | Date of initial election | Shareholdings at the time of appointment | | Current shareholdings | | Shares held by spouse and underage children | | Shares held in someone else's name | | Main experience (academic) | Positions in the Company and other companies | Other supervisors, directors, or supervisors who are spouses or relatives within 2nd degree kinship | | | Remarks |
|----------------------|--------------------------------------|--------------|-----------------|---------------------------------|----------------|--------------------------|--|--------------------|-----------------------|--------------------|---|--------------------|------------------------------------|--------------------|--|---|---|------|--------------|---------|
| | | | | | | | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | | | Job Title | Name | Relationship | |
| | | | | | | | | | | | | | | | TECHNOLOGY CO., LTD. Supervisor, Kang Jian Investment Co., Ltd. | | | | | |
| Independent Director | Republic of China | Lin Ying-Che | Male 60-70 | 2021.02.24 | 3 | 2014.06.17 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Chief of Staff; MARKE/TECH INTERNATIONAL CORP. Counselor, Headquarters, Financial Supervisory Commission Graduate School of Finance, National Chengchi University | Consultant, Chief Strategy Office, TOPCO SCIENTIFIC CO., LTD. | None | None | None | |
| Independent Director | Republic of China | Chiu Li-Mei | Female 50-60 | 2021.02.24 | 3 | 2021.02.24 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | EMBA, School of Management, National Chiao Tung University Vice Assistant Vice President, Finance Department, POU CHEN CORPORATION Senior Manager, Financial Accounting Dept., Motech Industries Inc. Assistant Vice-President, Audit Department, KPMG Taiwan | CPA, Chu Sui CPA Firm | None | None | None | |

| Job Title | Nationality or place of registration | Name | Gender Age | Date of Election (Inauguration) | Term of office | Date of initial election | Shareholdings at the time of appointment | | Current shareholdings | | Shares held by spouse and underage children | | Shares held in someone else's name | | Main experience (academic) | Positions in the Company and other companies | Other supervisors, directors, or supervisors who are spouses or relatives within 2nd degree kinship | | Remarks | |
|----------------------|--------------------------------------|--------------|---------------|------------------------------------|----------------|--------------------------|--|--------------------|-----------------------|--------------------|---|--------------------|------------------------------------|--------------------|--|---|---|------|---------|--------------|
| | | | | | | | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | | | Job Title | Name | | Relationship |
| Independent Director | Republic of China | Yao Shun-Yen | Male 40-50 | 2021.02.24 | 3 | 2021.02.24 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Project Manager, Taiwan Semiconductor Manufacturing Co., Ltd. Strategic Consultant, Boston Consulting Group Business Consultant, Accenture Consulting MBA, International Institute for Management Development Master of Computer Science, Cornell University | Investment Director, Hua Wei International Technology Consulting Co., Ltd. Independent Director, LOUISA Professional Coffee LTD. Juristic Person Director's Representative, ENTIRE TECHNOLOGY CO., LTD. Supervisor, ENFLEX CORPORATION Representative of Juristic Person Director, ENTIRE HOLDING GROUP LTD. Representative of Juristic Person Director, ENTIRE MATERIALS CO., LTD. Director, Qinyang Solar Energy Co., Ltd. Director, Huayang Solar Energy Co., Ltd. Director, Jiangsu Huahan Health Technology Ltd. | | | | |

* Indicates the date on which the representative was elected (inaugurated), the date of initial election, the number of shares held and percentage of shareholding at the time of election, the number of shares and percentage of shareholding currently held.

Note 1: The Company reduced capital in 2021 to make up for the deficit. The number of shares currently held is the number of shares held after the capital reduction and issuance of new shares.

Note 2: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Tse Cho-Wei was relieved of the position on June 21, 2023. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yang Dun-Hui, was appointed as the director.

Note 3: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yang Dun-Hui was relieved of the position on October 30, 2023. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Wu Hsin-Kai, was appointed as the director.

Note 4: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Tan Hung Hsiang was relieved of the position on January 31, 2024. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yao Tian-Chi, was appointed as the director.

Note 5: Former President Wang Min-Lieh was discharged on May 9, 2023 due to job adjustment. To maintain the Company's operations, Chairman Chou Ching-Wen assumed the position of President. A further announcement will be made after the appointment of the new President is approved by the Board of Directors.

2. Major shareholders of corporate shareholders

May 10, 2024

| Name of corporate shareholder | Major shareholders of corporate shareholders |
|--------------------------------|--|
| Kang Jian Investment Co., Ltd. | Taiwan Union Technology Corporation (100%) |

3. Major shareholders of corporations whose major shareholders are corporate shareholders

May 10, 2024

| Name of institution | Major shareholders of corporate entities |
|-------------------------------------|--|
| Taiwan Union Technology Corporation | HUNG HSI INTERNATIONAL DEVELOPMENT LIMITED COMPANY (20.85%) ALS ENTERPRISES LIMITED (8.84%) HPM Labs Co., LTD. (3.98%) Chou Ching-Wen (2.80%) Chen Chin (2.26%) Chi Teh Investment Co., Ltd. (2.21%) Lu Yung-Chung (2.13%) Mori Chen (1.92%) Yoshimura Investment Co., Ltd. (1.92%) Victor Ltd. (1.81%) |

Disclosure of information on directors' professional qualifications and independence of independent directors

| Condition Name | Professional qualifications and experience | Status of independence | Number of independent directors concurrently |
|--|---|--|--|
| Chou Ching-Wen | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. | Not applicable | None |
| Wang Min-Lieh | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. | Not applicable | None |
| Yao Tian-Chi | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. | Not applicable | None |
| Wu Hsin-Kai | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. | Not applicable | None |
| Chiu Li-Mei (Independent Director) | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. Professional and technical personnel who have passed the national examination for certified public accountants and obtained certificates. | Complies with Article 3 of the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" regarding independence and Article 4 regarding the limitation on concurrent directors: (1) Neither the spouse nor any relative within the second degree of kinship serve as a director, supervisor or employee of the Company or any of its affiliates. (2) The person himself/herself, his/her spouse, or a relative within the second degree of kinship (or in the name of another person) does not hold any shares of the Company. (3) Not serving as a director, supervisor or employee of a company specifically related to the Company. (4) No amount of remuneration received from providing commercial, legal, financial and accounting services to the Company or its affiliates in the last two years. | None |
| Lin Ying-Che (Independent Director) | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. | | None |
| Yao Shun-Yen (Independent Director) | Have the work experience required for business, legal affairs, finance, accounting, or corporate business, and is not under any of the circumstances specified in Article 30 of the Company Act. | | 1 |

Diversity and Independence of the Board of Directors

The Company's "Corporate Governance Best Practice Principles" regulates the composition of the Board of Directors and the abilities that should be possessed by them as a whole, and has established a diversity policy for the Board of Directors. The composition of the Board of Directors of the Company has been considered for diversity, and an appropriate diversity policy has been formulated based on the Company's own operations, business models and development needs. The standards include the following two major aspects:

- I. Basic conditions and values: gender, age, nationality and culture, among others.
- II. Professional knowledge and skills: Professional background (such as law, accounting, industry, finance, marketing, or technology), professional skills, and industry experience.

Members of the Board of Directors shall generally possess the necessary knowledge, skills, and literacy to perform their duties. In order to achieve the ideal goal of corporate governance, the board of directors as a whole should have the following capabilities:

- I. Operational judgment
- II. Accounting and financial analysis
- III. Operations and management
- IV. Crisis Management
- V. Knowledge of the industry
- VI. International market perspective
- VII. Leadership
- VIII. Decision-making

The implementation of the diversity of the board of directors of the company is as follows

The Company currently has 7 directors, including 3 independent directors (accounting for 43%), 1 female director (accounting for 14%), and 1 director who is an employee (accounting for 14%). There are two directors who has served in the Board of Directors from 3 to 6 years, and the third director from 9 to 10 years. The Company attaches great importance to the gender equality of the board members and aims to have at least one female director seat.

The members of the Board of Directors have the work experience and expertise in operations management, industry knowledge, finance and strategic management. The implementation of the diversity of the Board of Directors is as follows:

| Job Title | Chairman | Director | Director | Director | Independent Director | Independent Director | Independent Director |
|--|----------------|---------------|--------------|-------------|----------------------|----------------------|----------------------|
| Name | Chou Ching-Wen | Wang Min-Lieh | Yao Tian-Chi | Wu Hsin-Kai | Chiu Li-Mei | Lin Ying-Che | Yao Shun-Yen |
| Gender | Male | Male | Male | Male | Female | Male | Male |
| Age | 50-60 | 70-80 | 50-60 | 50-60 | 50-60 | 60-70 | 40-50 |
| Serving as an employee of the Company concurrently | | ✓ | | | | | |
| Length of tenure of independent directors | 3 - 6 years | | | | ✓ | | ✓ |
| | 9 - 10 years | | | | | ✓ | |
| Professional background | | | | | | | |
| Commerce | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Technology | ✓ | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Finance/Accounting | ✓ | | | ✓ | ✓ | | ✓ |
| Laws | | | | | | ✓ | |
| Professional knowledge and skills | | | | | | | |
| Leadership | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Decision-making power | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Industry knowledge | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Financial management capability | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Operation and manufacturing | ✓ | ✓ | ✓ | ✓ | | | |
| Risk management/crisis handling | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Environmental Sustainability | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Social Participation | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

(II) Information on the President, Assistant Vice Presidents, and the heads of various departments and branches

April 22, 2024

| Job Title | Nationality | Name | Gender | Elected Date (inaugurated) | Number of shares held | | Shares held by spouse and underage children | | Shares held in someone else's name | | Main experience (academic) | Positions in other companies | Managers who are a spouse or a relative within the second degree of kinship | |
|--|-------------------|-----------------|--------|----------------------------|-----------------------|--------------------|---|--------------------|------------------------------------|--------------------|--|--|---|--------------|
| | | | | | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | | | Job Title | Relationship |
| President | Republic of China | Chou Ching-Wen | Male | 2023.05.09 | 0 | 0 | 0 | 0 | 0 | 0 | MBA, The Wharton School, USA | Chairman, TAIWAN TECHNOLOGIES CO., LTD. Chairman, Kang Jian Investment Co., Ltd. Director, Tai-Ling Biotech, Inc. Chairman, Kang Yao Investment Co., Ltd. | None | None |
| Head of Professional Audio Division | Republic of China | Wang Min-Lieh | Male | 1973.11.22 | 1,151,832 | 5.76 | 0 | 0 | 372,442 | 1.86 | Taiwan Electrical and Electronic Manufacturers' Association - Policy Consultant Department of Electronic Engineering, Chung Yuan Christian University Graduate Institute of Business Administration, University of Oklahoma City Entrepreneurship Institute of National Chengchi University | Chairman, Apartners Investment Corp. Chairman, curafUN Asia Corporation | None | None |
| General Manager of New Environment Business Department | Republic of China | Yeh Cheng-Hsing | Male | 2023.05.31 | 0 | 0 | 0 | 0 | 0 | 0 | Vice President, TRANSACTOR INTERNATIONAL CORPORATION Project Manager, HELM CHAIN CO., LTD. Assistant Manager, TAI YUE ELECTRIC CO., LTD. Chairman, G-STAR INTERNATIONAL DEVELOPMENT CO., LTD. | Director, EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. | None | None |
| Audit officer | Republic of China | Su Hui-Wen | Female | 2023.03.17 | 0 | 0 | 0 | 0 | 0 | 0 | Finance Dept., PROTECH PHARMASERVICES CORPORATION Project Management Department, SITEPARTNER CORPORATION Department of Accounting, Shih Chien University | None | None | None |

| Job Title | Nationality | Name | Gender | Elected Date (inaugurated) | Number of shares held | | Shares held by spouse and underage children | | Shares held in someone else's name | | Main experience (academic) | Positions in other companies | Managers who are a spouse or a relative within the second degree of kinship | | |
|--|-------------------|--------------|--------|----------------------------|-----------------------|--------------------|---|--------------------|------------------------------------|--------------------|---|--|---|------|--------------|
| | | | | | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | | | Job Title | Name | Relationship |
| Assistant Vice President of Finance Department | Republic of China | Kao Wei-Hung | Male | 2022.11.09 | 0 | 0 | 0 | 0 | 0 | 0 | Audit Manager, Lang Inc. Taiwan Star Telecom Corporation Limited - Head of Stock Management Department Audit Team Leader, PwC Taiwan Graduate Institute of Accounting, National Chung Cheng University | Director, EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. Phonic Group, Ltd. Director | None | None | None |

(III) C. Where the chairperson of the board of directors and the general manager or person of an equivalent post (the highest level manager) of a company are the same person, spouses or relatives within the first degree of kinship, an explanation shall be given of the reason for, reasonableness, necessity thereof and the measures adopted in response thereto: Former President Wang Min-Lieh was discharged on May 9, 2023 due to job adjustment. To maintain the Company's operations, Chairman Chou Ching-Wen assumed the position of President. A further announcement will be made after the appointment of the new President is approved by the Board of Directors.

III. Remuneration paid to directors, presidents and vice-presidents in the most recent year

(I) Remuneration to directors (including independent directors) in 2023

Unit: NTD thousands

| Job Title | Name | Remuneration to directors | | | | | | Remuneration for concurrently serving as an employee | | | | The sum of A, B, C, D, E, F and G as a percentage of net income | | Remuneration from the reinvested businesses other than the subsidiaries | | | | | |
|----------------------|---|---------------------------|--|-------------------------------|--|-------------------------------|--|--|--|---|--|---|--|---|------|------|-------|------|------|
| | | Remuneration (A) | | Severance pay and pension (B) | | Remuneration to directors (C) | | Business execution expenses (D) | | The sum of A, B, C, D, E, F and G as a percentage of net income | | The sum of A, B, C, D, E, F and G as a percentage of net income | | | | | | | |
| | | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies included in the financial report | | | | | | |
| General Director | Kang Jian Investment Co., Ltd. | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.09 | 0.09 | 0.09 | 0.09 |
| | Representative: Chou Ching-Wen | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Kang Jian Investment Co., Ltd. | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.09 | 0.09 | 0.09 | 0.09 |
| | Representative: Wang Min-Lieh | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 1,921 | 8.18 | 8.18 |
| | Kang Jian Investment Co., Ltd. | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.09 | 0 | 0.09 | 0.09 |
| | Representative: Tan Hung-Hsiang (Note 3) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0.00 | 0.00 |
| | Kang Jian Investment Co., Ltd. | 0 | 0 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.09 | 0 | 0.09 | 0.09 |
| | Representative: Wu Hsin-Kai (Note 1 and Note 2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0 | 0.00 | 0.00 |
| | Chiu Li-Mei | 360 | 360 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.62 | 0 | 1.62 | 1.62 |
| | Lin Ying-Che | 360 | 360 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.62 | 0 | 1.62 | 1.62 |
| Independent Director | Yao Shun-Yen | 360 | 360 | 0 | 0 | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1.62 | 0 | 1.62 | 1.62 | |

1. Please describe the remuneration policies, systems, standards, and structures for independent directors, and their linkage to the amount of remuneration based on factors such as responsibilities, risks

and time invested:

The remuneration to the Directors of the Company shall be based on the degree of participation of each Director (including Independent Directors) in the Company's operations and the weighting of the contribution value. In accordance with Article 28 of the Company's Articles of Incorporation, no less than 2% of the current income before tax before deduction of the remuneration to the Company's employees and directors as the remuneration to directors and no more than 1% thereof as the remuneration to directors. However, if the Company still has accumulated losses (including the adjustment of the amount of undistributed earnings), it shall first retain the amount to offset it.

2. In addition to the remuneration disclosed in the above table, the remuneration received by the Company's directors for providing services to all companies included in the financial statements (such as serving as a consultant who is not an employee) in the most recent year: none.

Note 1: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Tse Cho-Wei was relieved of the position on June 21, 2023. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yang Dun-Hui, was appointed as the director.

Note 2: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yang Dun-Hui was relieved of the position on October 30, 2023. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Wu Hsin-Kai, was appointed as the director.

Note 3: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Tan Hung Hsiang was relieved of the position on January 31, 2024. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yao Tian-Chi, was appointed as the director.

(II) Remuneration to President and Vice-Presidents in 2023

Unit: NTD thousands

| Job Title | Name | Salary (A) | | Severance pay and pension (B) | | Bonuses and allowances (C) | | Amount of remuneration to employees (D) | | | The sum of A, B, C and D as a percentage of net income after tax (%) | Received remuneration from reinvested businesses other than subsidiaries or the parent company |
|--------------------|----------------|-------------|--|-------------------------------|--|----------------------------|---------------|---|--|------------------|--|--|
| | | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies | The Company | All companies included in the financial report | | | |
| | | Amount | Amount | Amount of shares | Amount of shares | Cash amount | Cash amount | | | Amount of shares | | |
| President (Note 1) | Chou Ching-Wen | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | None |
| President (Note 1) | Wang Min-Lieh | 785 | 785 | 0 | 0 | 0 | 0 | 0 | 0 | 3.34 | 3.34 | None |

*Regardless of the job title, any position equivalent to a general manager or deputy general manager (e.g. President, CEO, Chief Officer, etc.) should be disclosed.

Note 1: Former President Wang Min-Lieh was discharged on May 9, 2023 due to job adjustment. To maintain the Company's operations, Chairman Chou Ching-Wen assumed the position of President. A further announcement will be made after the appointment of the new President is approved by the Board of Directors.

(III) The remuneration of the top five executives of the listed company

Unit: NTD thousands

| Job Title | Name | Salary (A) | | Severance pay and pension (B) | | Bonuses and allowances (C) | | Amount of remuneration to employees (D) | | | | The sum of A, B, C and D as a percentage of net income after tax (%) | | Received remuneration from reinvested businesses other than subsidiaries or the parent company | | |
|-------------------------------------|---------------|-------------|--|-------------------------------|--|----------------------------|--|---|--|-------------|------------------|--|-------------|--|-------------|--|
| | | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies included in the financial report | The Company | All companies included in the financial report | Cash amount | Amount of shares | Amount of shares | Cash amount | | The Company | All companies included in the financial report |
| Head of Professional Audio Division | Wang Min-Lieh | 1,921 | 1,921 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8.18 | 8.18 | None |
| Assistant VP, Finance | Kao Wei-Hung | 1,452 | 1,452 | 88 | 88 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6.56 | 6.56 | None |

*The concept of remuneration disclosed in this table is different from that of Income Tax Act. Therefore, this table is for information disclosure and not for tax purposes.

- (IV) Names of managers assigned with employee remuneration: none.
- (V) Separately compare and describe total remuneration, as a percentage of net income stated in the parent company only financial reports or individual financial reports, as paid by this company and by each other company included in the consolidated financial statements during the past 2 fiscal years to directors, general managers and assistant general managers, and analyze and describe remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure.

1. Total remuneration paid as a percentage of net income after tax in the most recent two years:

| Total remunerations as a percentage of net income after tax | 2022 | 2023 |
|---|---------|--------|
| Director | -41.10% | 13.38% |
| President and Vice Presidents | -25.53% | 3.34% |

2. The remuneration policy, standards and components, the procedure for determining remuneration and the correlation with operating performance and future risks:

- (1) The remuneration policy of the Company and all companies included in the consolidated financial statements is based on the scope of authority and responsibility of the position in the Company and the contribution to the Company's operating goals; Remuneration is determined not only with reference to the overall operating performance of the company, but also with reference to the individual's contribution to the company's performance.
- (2) In accordance with Article 28 of the Company's Articles of Incorporation, no less than 2% of the current income before tax before deduction of the remuneration to the Company's employees and directors as the remuneration to directors and no more than 1% thereof as the remuneration to directors. However, if the Company still has accumulated losses (including the adjustment of the amount of undistributed earnings), it shall first retain the amount to offset it and relevant regulations.

IV. Status of corporate governance

I. Operation of the Board of Directors:

A total of 7 board meetings were held in 2023. The attendance of directors is as follows:

| Job Title | Name | Actual attendance rate | Proxy attendance Number of times | Attendance rate in person (%) | Remarks |
|----------------------|---|------------------------|----------------------------------|-------------------------------|---|
| Chairman | Kang Jian Investment Co., Ltd. Representative: Chou Ching-Wen | 7 | 0 | 100% | Re-elected as a director on February 24, 2021 Re-election of new Chairman on 2022.11.9 |
| Director | Kang Jian Investment Co., Ltd. Representative: Wang Min-Lieh | 0 | 1 | 0% | Re-elected as a director on February 24, 2021 |
| Director | Kang Jian Investment Co., Ltd. Representative: Tan Hung-Hsiang | 6 | 1 | 86% | Re-election of new Chairman on 2021.2.24 Re-election of outgoing Chairman on 2022.11.9 |
| Director | Kang Jian Investment Co., Ltd. Representative: Wu Hsin-Kai | 0 | 1 | 0% | 2023.10.30 Re-appointment of new director representatives of juristic person director. |
| Director | Kang Jian Investment Co., Ltd. Representative: Yang Dun-Hui | 0 | 3 | 0% | 2023.6.21 Re-appointment of new director representatives of juristic person director. Resigned as the representative of juristic person director on October 30, 2023 |
| Director | Kang Jian Investment Co., Ltd. Representative: Tse Cho-Wei | 3 | 0 | 80% | Re-election of new Directors on 2021.2.24 Resigned as juristic person director on June 21, 2023 |
| Independent Director | Chiu Li-Mei | 7 | 0 | 100% | Re-election of new Directors on 2021.2.24 |
| Independent Director | Lin Ying-Che | 5 | 2 | 86% | Re-elected as a director on February 24, 2021 |
| Independent Director | Yao Shun-Yen | 6 | 1 | 100% | Re-election of new Directors on 2021.2.24 |

Other information to be disclosed:

1. If the operation of the board of directors meets any of the following circumstances, the date and session of the board of directors, the contents of the motions, the opinions of all independent directors and the Company's handling of the opinions of the independent directors should be stated:

(1) Matters specified in Article 14-3 of the Securities and Exchange Act: Not applicable, the Company has established an Audit Committee and the provisions of Article 14-5 of the Securities and Exchange Act shall apply.

(2) Other than the aforementioned matters, any other resolutions of the Board of Directors objected to or with reservations expressed by independent directors and recorded or declared in writing: no such matter has occurred in the Company.

2. For the recusal of a director from a proposal because of a conflict of interest, the name of the director, the content of the proposal, the reason for recusal, and the participation in voting should be stated: none.
3. TWSE/GTSM listed companies shall disclose the evaluation cycle and duration, evaluation scope, method and evaluation content of the self-evaluation (or peer evaluation) of the board of directors:

Implementation of the evaluation of the Board of Directors:

| | |
|---------------------|---|
| Evaluation Cycle | The Board of Directors of the Company shall complete the performance evaluation of the Board of Directors of the previous year before the end of the first quarter of each year in accordance with the "Procedures for Performance Evaluation of the Board of Directors." |
| Evaluation period | From January 1, 2023 to December 31, 2023 |
| Scope of Assessment | Performance evaluation of the entire board of directors, individual board members, and their functional committees. |
| Evaluation Method | Internal self-evaluation of the Board of Directors, self-evaluation of Board members and self-evaluation of functional committees. |

I. 2023 Board of Directors' performance evaluation indicators and options

Multiple choice: Strongly Agree, 5 points; Agree, 4 points; Average, 3 points; Disagree, 2 points;

| Performance Evaluation of the Board of Directors | Board member's self-evaluation |
|---|---|
| <ul style="list-style-type: none"> • Level of participation in the Company's operations • Improving the quality of board of directors' decision making • Composition and structure of the Board of Directors • Election and continuing education of directors • Internal control | <ul style="list-style-type: none"> • Understanding of the Company's goals and missions • Awareness of the duties of directors • Level of participation in the Company's operations • Management of internal relationship and communication • Directors' professionalism and continuing education • Internal control |
| 45 evaluation indicators | 23 evaluation indicators |

Strongly Disagree, 1 point

II. 2023 Board of Directors performance evaluation results

The Company's Board of Directors performance evaluation for 2023 scored between 5 points

for "strongly agree" and 4 points for "agree." The directors generally agreed with the operation of various evaluation indicators and the overall functioning of the Board of Directors was good, in line with corporate governance requirements, and effectively strengthen the functions of the Board of Directors and protect the rights and interests of shareholders.

III. 2023 functional committee performance evaluation indicators and options

Multiple choice: Strongly Agree, 5 points; Agree, 4 points; Average, 3 points; Disagree, 2 points;

| Audit Committee Performance Evaluation | Performance evaluation of the Remuneration Committee |
|--|--|
| <ul style="list-style-type: none"> • Level of participation in the Company's operations • Awareness of the duties of the committee • Improve the quality of decision making by the committee • Committee composition and election of members • Internal control | <ul style="list-style-type: none"> • Level of participation in the Company's operations • Awareness of the duties of the committee • Improve the quality of decision making by the committee • Committee composition and election of members |
| 21 evaluation indicators | 18 evaluation indicators |

Strongly Disagree, 1 point

IV. 2023 functional committee performance evaluation results

The Company's functional committee performance evaluation for 2023 scored between 5 points for "strongly agree" and 4 points for "agree." The directors generally agreed with the operation of various evaluation indicators and the overall functioning of the functional committee was good, in line with corporate governance requirements, and effectively strengthen the functions of the Board of Directors and protect the rights and interests of shareholders.

V. The 2023 Board of Directors and functional committee performance evaluation results were reported to the Board of Directors on March 14, 2024.

4. Enhancements to the functionality of the Board of Directors in the current year and the most recent year (e.g. establishment of an Audit Committee, enhancement of information transparency, etc.) and implementation evaluations:

- (1) The Company's Board of Directors has established two functional committees, the Audit Committee and the Remuneration Committee, which are composed entirely of independent directors to assist the Board of Directors in fulfilling its supervisory duties.
- (2) The Company discloses relevant information in accordance with the laws and regulations and implements a spokesperson system to enable timely and appropriate disclosure of all material information to protect shareholders' interests.

II. Operation of the Audit Committee

1. Committed to the implementation of the spirit of corporate governance, the Company has formed an Audit Committee to replace supervisors in accordance with the Securities and Exchange Act in June 2020.
2. A total of 6 Audit Committee meetings were held in 2023, and the attendance of each independent director is as follows:

| Job Title | Name | Actual attendance rate | Proxy attendance Number of times | Attendance rate in person (%) | Remarks |
|----------------------|--------------|------------------------|----------------------------------|-------------------------------|---|
| Independent Director | Chiu Li-Mei | 6 | 0 | 100% | Re-election of new Directors on 2021.2.24 |
| Independent Director | Lin Ying-Che | 5 | 1 | 83% | Re-elected as a director on February 24, 2021 |
| Independent Director | Yao Shun-Yen | 5 | 1 | 83% | Re-election of new Directors on 2021.2.24 |

Formation and operation of the Audit Committee:

The Company's Audit Committee consists of 3 independent directors. The operation of the committee is mainly to supervise the following matters:

- I. Appropriate presentation of the Company's financial statements.
- II. Selection (dismissal) of CPAs and their competence, independence and performance.
- III. Effective implementation of the Company's internal control.
- IV. The Company's compliance with relevant laws and regulations.
- V. Management and control of existing or potential risks of the Company.

Other information to be disclosed:

1. If the operation of the Audit Committee is under any of the following circumstances, the date and session of the board of directors, the content of the motions, the resolution of the Audit Committee and the Company's handling of the Audit Committee's opinions should be stated: (1) Conditions described in Article 14-5 of the Securities and Exchange Act:

The operation of the Audit Committee in 2023 is as follows:

| Meeting date | Proposal Content | Matters listed in Article 14-5 of the Securities and Exchange Act | Resolution of the Audit Committee | The Company's handling of the Audit Committee's opinions |
|--------------|---|---|--|--|
| 2023.3.17 | Presentation of the Company's 2022 Q4 audit report. | V | Agreed by all members present in the Audit Committee | Approved by all directors present at the Board meeting |
| | The Company's 2022 business report and financial statements. | V | | |
| | The Company's 2022 earnings distribution proposal | V | | |
| | The Company's 2022 internal control system statement. | V | | |
| | Appointment of CPAs for the 2023 financial statements and evaluation of the independence of CPAs. | V | | |
| | To repeal and re-formulate the Company's "Ethical Corporate Management Best Practice Principles." | V | | |
| | To repeal and then re-stipulate the Company's "Corporate Governance Best Practice Principles." | V | | |
| | To repeal and re-enact the Company's "Rules of Procedures for Board of Directors Meetings." | V | | |
| | To formulate the "Sustainable Development Best Practice Principles" of the Company. | V | | |
| | Appointment of the Company's internal audit officer. | V | | |
| 2023.5.10 | The Company's consolidated financial statements for Q1, 2023. | V | Agreed by all members present in the Audit Committee | Approved by all directors present at the Board meeting |
| | Presentation of the Company's 2023 Q1 audit report. | V | | |
| | Private placement of common shares. | V | | |
| 2023.7.14 | Partial amendments to the "Procedures for Acquisition and Disposal of Assets" of the Company. | V | Agreed by all members present in the Audit Committee | Approved by all directors present at the Board meeting |
| 2023.8.10 | The Company's consolidated financial statements for Q2 2023. | V | Agreed by all members present in the Audit Committee | Approved by all directors present at the Board meeting |
| | Presentation of the Company's 2023 Q2 audit report. | V | | |
| 2023.9.8 | The Company to reinvest the equity of | V | Agreed by | Approved by |

| Meeting date | Proposal Content | Matters listed in Article 14-5 of the Securities and Exchange Act | Resolution of the Audit Committee | The Company's handling of the Audit Committee's opinions |
|--------------|---|---|--|--|
| | EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. | | all members present in the Audit Committee | all directors present at the Board meeting |
| 2023.11.10 | The Company's consolidated financial statements for the third quarter of 2023. | V | Agreed by all members present in the Audit Committee | Approved by all directors present at the Board meeting |
| | Presentation of the Company's 2023 Q3 audit report. | V | | |
| | Approval of the Company's 2024 audit plan. | V | | |
| | Approval for adding the "Guidelines Governing the Appointment of the Board of Directors and the Exercise of Powers," "Guidelines Governing The Appointment and Compliance of Independent Directors" and the "Standard Operating Procedures for Handling Directors' Requests." | V | | |

(2) Other than the aforementioned matters, any other resolutions of the Board of Directors objected to or with reservations expressed by independent directors and recorded or declared in writing:

2. For the recusal of an independent director from a proposal because of a conflict of interest, the name of the independent director, the content of the proposal, the reason for recusal, and the participation in voting should be stated: None.

3. Communication between independent directors and internal auditing officers and accountants:

(1) The Company's internal auditing officer delivers audit reports to independent directors for review on a regular basis, and reports the implementation of audited engagements to the Audit Committee and the Board of Directors on a quarterly basis.

(2) When the Company's Audit Committee holds a meeting, if the Company's financial report or CPA's audit and certification related matters are discussed, the CPA is invited to attend. The CPA reports to the independent directors on the financial status, internal control audit status and key audit matters, and will attend the meeting concurrently and explain the impact of amendments to laws and

regulations on the Company's accounting. In case of important matters, they can also communicate instantly through other means.

- (3) The summary of the communications between independent directors and the internal audit officer in 2023 and the results of the communication are as follows:

| Date | Communication matters | Result of communication |
|--|--|---|
| 2023.03.17 Audit Committee | Chief internal auditor conducted the 2022 Q4 audit report. Issuance of the Company's 2022 statement of internal control system. | No opinion |
| 2023.05.10 Audit Committee | Chief internal auditor conducted the 2023 Q1 audit report. | No opinion |
| 2023.08.10 Audit Committee | Chief internal auditor conducted the 2023 Q2 audit report. | No opinion |
| 2023.08.30 Independent directors and audit officers Individual communication meeting | Explain how the Company performs the "Procedures for the Management of Financial Statements Preparation" audit. | In the future, audits will be conducted in accordance with the recommendations of independent directors |
| 2023.11.10 Audit Committee | Chief internal auditor conducted the audit report for 2023 Q3. The Company's 2024 audit plan. | No opinion |
| 2023.11.10 Independent directors and audit officers Individual communication meeting | Communicate and discuss the internal control system of the Company's "sale and payment collection cycle." | In the future, audits will be conducted in accordance with the recommendations of independent directors |

- (4) The summary of communications between independent directors and the CPAs and the results of the communications in 2023 is as follows:

| Date | Communication matters | Result of communication |
|------------------------------|--|-------------------------|
| 2023.3.17 Audit Committee | CPAs explained the status and results of the audit of the 2022 financial statements, and discussed about the application of some accounting principles and the impact of the newly amended laws and regulations. | No opinion |

III. The state of the company's implementation of corporate governance, any deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies and the reason for any such deviation

| Evaluation Items | Operation status (Note) | | | Any deviation from the Corporate Governance Best- |
|--|-------------------------|----|---|---|
| | Yes | No | Summary description | |
| I. Has the Company established and disclosed its corporate governance best-practice principles in accordance with the Corporate Governance Best- | Yes | | The Company's "Corporate Governance Best Practice Principles" was re-established with the resolution of the Board of Directors on March 17, 2023, and is disclosed on the Company's | No significant difference |
| II. The Company's shareholding structure and shareholders' rights and interests (I) Does the Company establish internal operating procedures to handle shareholders' suggestions, doubts, disputes and litigation matters and implement them in accordance with the procedures? | Yes | | In order to protect the rights and interests of shareholders, the Company has appointed a spokesperson and an acting spokesperson, and a dedicated unit is responsible for shareholders' suggestions, questions, disputes and litigation matters. | No significant difference |
| (II) Does the Company keep track of the list of major shareholders who actually control the Company and the ultimate controllers of such major shareholders? | Yes | | The Company keeps abreast of the actual control list at any time through the insiders (directors, supervisors, managers and major shareholders holding 10% of the shares) reporting the change of shareholding and the shareholder roster provided by the stock agency. | No significant difference |
| (III) Has the Company established and implemented risk control and firewall mechanisms with its affiliates? | Yes | | The authority and responsibility for the asset and financial management between the Company and its affiliates are very clear and are handled in accordance with the relevant regulations. | No significant difference |
| (IV) Does the Company establish internal regulations to prohibit insiders from trading securities using undisclosed information in the market? | Yes | | The Company has established the "Management Procedures for Prevention of Insider Trading" and has indeed communicated to the insiders to strictly follow. | No significant difference |
| III. Composition and duties of the Board of Directors (I) Does the Board of Directors formulate and implement a diversity policy for the composition of members? | Yes | | The Company has established the "Corporate Governance Best Practice Principles" and the "Regulations Governing the Election of Directors and Independent Directors" to stipulate that the composition of the board of directors should be diversified and to formulate an appropriate diversity policy based on the Company's own operations, business models and development needs. Board members should generally have the knowledge, skills, and literacy necessary to perform their duties in order to achieve the ideal goals of corporate governance. | No significant difference |

| | | | | |
|---|-----|--|---|---------------------------|
| (II) In addition to the Remuneration Committee and the Audit Committee, has the Company established other functional committees voluntarily? | Yes | | The Company has appointed the Remuneration Committee and the Audit Committee in accordance with the law. The establishment of other functional committees is based on the actual needs of the Company. | No significant difference |
| (III) Has the Company established rules and methods for evaluating the performance of the Board of Directors, and conducts annual performance evaluations regularly and reports the results of the performance evaluations to the Board of Directors, and uses them as a reference for individual directors' remuneration and nomination? | Yes | | On March 15, 2021, the Board of Directors passed a resolution to establish the "Board of Directors Performance Evaluation Measures." The scope of evaluation includes the performance evaluation of the entire Board of Directors, individual board members and functional committees. The evaluation results are submitted to the Remuneration Committee for analysis and then reported to the Board of Directors and used as a reference for individual directors' remuneration and nomination for re-election. | No significant difference |

| Evaluation Items | Operation status (Note) | | | Any deviation from the Corporate Governance Best- |
|--|-------------------------|----|---|---|
| | Yes | No | Summary description | |
| (IV) Does the Company regularly assess the independence of the CPAs? | Yes | | <p>The Audit Committee of the Company regularly evaluates the independence of the certified public accountants every year and then submit the evaluation results to the Board of Directors.</p> <p>The 2023 assessment was approved by the Audit Committee on 2023.3.17 and passed by the Board on 2023.3.17.</p> <p>The latest evaluation was approved by the Audit Committee on March 14, 2024 and passed by the Board of Directors on March 14, 2024.</p> <p>The evaluation mechanism is as follows:</p> <ol style="list-style-type: none"> 1. Confirm that the Company's CPAs are not related parties to the Company and its directors. 2. Comply with the provisions of the Corporate Governance Best Practice Principles and manage the rotation of CPAs. 3. Require CPAs to provide a "Declaration of Independence" and follow the "Audit Quality Indicator Disclosure Template" published by the Financial Supervisory Commission, which covers professionalism, independence, quality control, supervision and innovation | No significant difference |
| IV. Whether the listed company appoints competent and appropriate corporate governance personnel and appoints a corporate governance officer to be responsible for corporate governance-related affairs (including but not limited to providing directors and supervisors with the information needed to perform their duties, | Yes | | <p>The Company has a corporate governance officer and corporate governance staff responsible for providing information needed by the board of directors and functional committees to carry out their duties, handling matters related to the board of directors and shareholders' meetings in accordance with the law, handling company registration and change registration, preparing minutes of shareholders'</p> | No significant difference |

| Evaluation Items | Operation status (Note) | | | Any deviation from the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies, and the reason for any such deviation |
|--|-------------------------|----|---|---|
| | Yes | No | Summary description | |
| V. Does the Company create channels for communication with stakeholders (including but not limited to shareholders, employees, customers and suppliers), set up a stakeholder section on the Company's website and appropriately respond to important corporate social concerns of | Yes | | The Company maintains smooth communication channels with its stakeholders, including shareholders, employees, customers, suppliers and other stakeholders. | No significant difference |
| VI. Does the Company appoint a professional shareholder service agency to handle shareholders' | Yes | | The Company's Shareholders' Meeting has been appointed to the "Stock Affairs Agency Department of Yuanta Securities Co., Ltd." | No significant difference |
| VII. Information Disclosure (I) Does the Company set up a website to disclose financial, business and corporate governance information? | Yes | | The Company's website (www.twphonic.com) discloses information on finance, business, corporate governance and shareholders' meetings on a regular and irregular basis. | No significant difference |
| (II) Has the Company adopted other means of information disclosure (e.g., setting up an English website, appointing dedicated personnel to collect and disclose information on the Company, implementing a spokesperson system, posting the proceedings of investor conferences on the Company's website)? | Yes | | The Company has appointed a spokesperson and an acting spokesperson to implement the spokesperson system. The investor conference is not convened on a regular basis. | No significant difference |
| (III) Does the Company announce and report the annual financial statements within two months after the end of the fiscal year and announce and report the financial statements for the first, second, and third quarters and the operating status of each month before the prescribed deadline? | | No | The Company currently does not announce and report annual financial statements within two months after the end of a fiscal year; however, the annual, first, second, and third quarter financial statements and monthly operating conditions are announced and reported well in advance of the prescribed deadline. | The Company will carefully evaluate the feasibility of announcing and reporting the annual financial report within two months after the end of the fiscal year. |

| Evaluation Items | Operation status (Note) | | | Any deviation from the |
|------------------|-------------------------|--|--|------------------------|
|------------------|-------------------------|--|--|------------------------|

| | Yes | No | Summary description | Corporate Governance Best-Practice Principles for TWSE/TPEx-Listed Companies, and the reason for any such deviation |
|---|-----|----|---|---|
| VIII. Does the Company have other important information that is helpful to understand the implementation of corporate governance (including but not limited to employees' rights and interests, employee care, investor relations, supplier relations, stakeholders' rights, directors' and supervisors' continuing education status, risk management policies and risk measurement standards, implementation of customer policies and purchase of liability insurance for directors and supervisors)? | Yes | | <p>1. The Company spares no effort to protect the rights and interests of employees, employee care, investor relations, supplier relations and stakeholders' rights.</p> <p>2. Continuing education of directors: The Company actively encourages directors to participate in professional knowledge courses. (Note) Implementation of risk management policies and risk measurement standards: For details, please see the analysis and assessment of risk issues in No. 7-6 of the annual report.</p> <p>3. Implementation of customer policy: The quality policy upheld by the Company is based on the investigation, continuous improvement, full participation and customer focus.</p> <p>4. The Company purchases liability insurance for directors every year, and regularly reports the insurance period, insured amount and other relevant insurance policy details to all directors at the board meeting.</p> | No significant difference |
| <p>IX. Please describe the improvements made based on the corporate governance evaluation results published by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year, and propose enhancement measures and measures for the matters that have not yet been improved.</p> <p>The Company is committed to strengthening corporate governance and continues to improve its unscored areas. The specific enhancements and measures in the near future are:</p> <p>1. The Company has established a corporate governance webpage in 2022 to provide investors and shareholders with</p> | | | | |

Note: No matter whether "Yes" or "No" is selected for the operation status, it should be described in the summary description column.

IV. If the Company has a remuneration committee, it shall disclose its composition, responsibilities and operations:

1. Information on the Members of the Remuneration Committee

| Identity | Name | Condition | Professional qualifications and experience | Status of independence | Number of other public companies serving as Remuneration Committee member concurrently |
|---------------------------------|--------------|--|--|------------------------|--|
| Independent Director (Convener) | Chiu Li-Mei | Work experience in commerce, law, finance, accounting, or corporate operations. Professional and technical personnel who have passed the national examination for certified public accountants and obtained certificates. Main experience (academic) 1. Vice Assistant Vice President, Finance Department, POU CHEN CORPORATION 2. Senior Manager, Financial Accounting Dept., Motech Industries, Inc. 3. Assistant Vice-President, Audit Department, KPMG Taiwan | Complies with Article 3 of the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies" regarding independence and Article 4 regarding the limitation on concurrent directors: (1) Neither the spouse nor any relative within the second degree of kinship serve as a director, supervisor or employee of the Company or any of its affiliates. | None | |
| Independent Director | Lin Ying-Che | Work experience in commerce, law, finance, accounting, or corporate operations. Main experience (academic) 1. Chief of Staff, MARKETECH INTERNATIONAL CORP. 2. Counsellor, Headquarters, Financial Supervisory Commission 3. Graduate School of Finance, National Chengchi University | (2) The person himself/herself, his/her spouse, or a relative within the second degree of kinship (or in the name of another person) does not hold any shares of the Company. | None | |
| Independent Director | Yao Shun-Yen | Work experience in commerce, law, finance, accounting, or corporate operations. Main experience (academic) 1. Supervisor of ENTIRE TECHNOLOGY CO., LTD. 2. Strategic Consultant, Boston Consulting Group 3. Project Manager, Taiwan Semiconductor Manufacturing Company Limited 4. MBA, Lausanne School of Management | (3) Not serving as a director, supervisor or employee of a company specifically related to the Company. (4) No amount of remuneration received from providing commercial, legal, financial and | 1 | |

| | | | | |
|--|--|--|---|--|
| | | | accounting services to the Company or its affiliates in the last two years. | |
|--|--|--|---|--|

2. Duties of the Remuneration Committee

The Committee shall exercise the care of a good administrator and faithfully perform the following duties, and submit its recommendations to the Board of Directors for discussion.

- (1) Formulate and regularly review the policies, systems, standards and structures for the performance evaluation and remuneration of directors and managers.
- (2) Assess and determine the remuneration to directors and managers on a regular basis.

When performing the functions and powers in the preceding paragraph, the Committee shall follow the following principles:

- (1) The performance evaluation and remuneration of directors and managers shall be based on the general payment level of the industry, and the reasonableness of the association with individual performance, the Company's operating performance and future risks.
- (2) Directors and managers should not be induced to engage in behaviors that exceed the Company's risk appetite in order to seek remuneration.
- (3) The percentage of bonuses for directors' and senior managers' short-term performance and the timing of the payment of some of the variable salaries shall be determined in consideration of the characteristics of the industry and the nature of the Company's business.

3. Information on the operation of the Remuneration Committee

- (1) The Company's Remuneration Committee consists of 3 members.
- (2) The term of office of the current members: March 15, 2021 to February 23, 2024. The Remuneration Committee met 2 times (A) in the most recent year. The qualifications and attendance of members are as follows:

| Job Title | Name | Number of attendances in person (B) | Frequency of attendance by proxy | Actual attendance rate (%) | Remarks |
|-----------|------|-------------------------------------|----------------------------------|----------------------------|---------|
|-----------|------|-------------------------------------|----------------------------------|----------------------------|---------|

| | | | | | |
|---|--------------|---|---|--------------|--|
| | | | | (B/A) (Note) | |
| Convener | Chiu Li-Mei | 2 | 0 | 100% | |
| Committee members | Lin Ying-Che | 2 | 0 | 100% | |
| Committee members | Yao Shun-Yen | 1 | 1 | 50% | |
| Other information to be disclosed: | | | | | |
| I. If the Board of Directors rejects or modifies the suggestions of the Remuneration Committee, please describe the date and session of the Board of Directors, the contents of the motion, the resolution of the Board of Directors and the Company's handling of the Remuneration Committee's opinions: None. | | | | | |
| II. If a member has a dissenting or qualified opinion on a resolution on the resolution of the Remuneration Committee and it is on record or stated in a written statement, specify the Remuneration Committee date, session, content of the motion, all members' opinions, and how they were handled: none. | | | | | |

(3) The Remuneration Committee's discussion of matters and resolutions, and the Company's handling of the members' opinions.

| Meeting date | Proposal Content | Resolution of the Remuneration Committee | The Company's handling of the opinions of the Remuneration Committee |
|--------------|--|--|--|
| 2023.3.17 | Approval of not appropriating 2022 employees' and directors' remuneration. | Agreed by all attending members | Approved by all directors present at the Board meeting |
| 2023.11.10 | Remuneration items to be implemented in 2024. | Agreed by all attending members | Approved by all directors present at the Board meeting |

V. The implementation of Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies and the reasons therefor

| Items to be promoted | Status of implementation | | Summary description | Any deviation from the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation |
|---|--------------------------|----|--|---|
| | Yes | No | | |
| I. Does the Company establish a governance structure to promote sustainable development, and set up a dedicated (or part-time) unit to promote sustainable development, with senior management authorized by the board of directors to handle and supervised by the board of directors? | | No | Although the Company does not have a governance structure or full-time (part-time) units in place to promote sustainable development, the Company will start from itself and spare no effort in environmental protection and related social responsibility activities. | No significant difference |
| II. Does the Company conduct risk assessments on environmental, social and corporate governance issues related to company operations in accordance with the principle of materiality, and establish relevant risk management policies or strategies? | | No | Although the Company has not yet established related policies or strategies, the Company will practice its corporate social responsibility in accordance with the following principles: 1. Implement and promote corporate governance. 2. Develop a sustainable environment. 3. Protection of social welfare. 4. Strengthen corporate social responsibility. | No significant difference |
| III. Environmental Issues (I) Has the Company established an appropriate environmental management system based on the characteristics of its industry? | Yes | | The raw materials currently used have complied with the EU directive (RoHS). | No significant difference |

| Items to be promoted | Status of implementation | | | Any deviation from the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation |
|---|--------------------------|----|--|---|
| | Yes | No | Summary description | |
| (II) Is the Company committed to improving energy efficiency and using recycled materials with low impact on the environment? | Yes | | <p>1. In the implementation of business activities, we comply with relevant environmental protection laws and regulations to properly protect the environment in order to achieve the goal of environmental sustainability.</p> <p>2. We are committed to improving the efficiency of the utilization of various resources, and use of recycled materials with lower impact on the environment, to achieve sustainable utilization of the earth's resources.</p> | No significant difference |
| (III) Has the Company assessed the potential risks and opportunities posed by climate change to the Company at present and in the future, and taken relevant countermeasures? | Yes | | The Company was established to promote the development of a circular economy, pays great attention to issues related to climate change, and encourages the reuse of resources in its daily office environment. | No significant difference |
| (IV) Has the Company kept statistics on its greenhouse gas emissions, water consumption and total weight of waste in the past two years, and formulated policies for energy conservation, carbon reduction, greenhouse gas reduction, water consumption reduction, or other waste management? | Yes | | Greenhouse gases pose severe challenges to the Earth's ecology. As part of the industry supply chain, the Company regularly conducts surveys on the company's carbon emissions, and screens for improvements that can be energy-saving and carbon-reducing, reduce resource consumption, and contribute to the reduction of greenhouse gases contribution. | No significant difference |
| IV. Social Issues (I) Does the Company establish relevant management policies and procedures in accordance with relevant laws and international human rights | Yes | | In accordance with the Labor Standards Act and other relevant laws and regulations, the personnel management rules and employee work rules are formulated, and labor insurance, health insurance and pension matters for employees are handled according to laws. | No significant difference |

| Items to be promoted | Status of implementation | | | Any deviation from the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation |
|--|--------------------------|----|--|---|
| | Yes | No | Summary description | |
| conventions? | | | | |
| (II) Does the Company establish and implement reasonable employee welfare measures (including remuneration, leave and other benefits), and appropriately reflect the business performance or results in the employee remuneration? | Yes | | <p>The employee remuneration policy is determined based on individual ability, contribution to the Company, performance, competitiveness, and considering the Company's future operational risks.</p> <p>According to Article 28 of the Company's Articles of Incorporation, if the Company makes a profit in the year, it shall allocate no less than 2% as employee's remuneration and no more than 1% as directors' remuneration, which shall be distributed in shares or cash by resolution of the board of directors. The employees of the affiliated companies of the Company who meet certain criteria are also eligible for payment.</p> | No significant difference |
| (III) Does the Company provide employees with a safe and healthy work environment, and provide employees with safety and health education on a regular basis? | Yes | | Provide employees with a safe and healthy working environment, and strive to improve and reduce the risk factors for employees' safety and health in order to prevent occupational disasters. | No significant difference |
| (IV) Has the Company established an effective career development training program for its employees? | Yes | | The Company provides relevant professional education and training to enrich the career skills of employees. The Company also encourages employees to evaluate their own interests, skills, values and goals and communicates personal career intentions with managers to plan future career plans. | No significant difference |

| Items to be promoted | Status of implementation | | | Any deviation from the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation |
|---|--------------------------|----|---|---|
| | Yes | No | Summary description | |
| (V) Does the Company comply with relevant laws and regulations and international standards regarding customer health and safety, customer privacy, marketing and labeling of products and services and establish relevant policies and complaint procedures to protect consumers' or customers' rights and interests? | Yes | | <ol style="list-style-type: none"> 1. The Company complies with the "Consumer Protection Act" and upholds product responsibility and marketing ethics and implements consumer rights policies. 2. The Company follows government regulations and industry-related norms to ensure the quality of products and services. 3. The Company follows government regulations and relevant international standards in the marketing and advertising of products or services and promises not to deceive, mislead, commit fraud or any other behavior that damage consumer trust or damage consumer rights. | No significant difference |
| (VI) Does the Company establish a supplier management policy that requires suppliers to comply with relevant regulations on environmental protection, occupational safety and health or labor human rights and the implementation status thereof? | Yes | | <ol style="list-style-type: none"> 1. The Company has included "environmental safety and health status" as one of the inspection items in the supplier on-site evaluation form. 2. The contracts signed between the Company and the suppliers contain clauses that provide for the termination or rescission of the contracts by the Company in the event of a breach of social responsibility or other circumstance with significant adverse impact on the society. | No significant difference |
| V. Does the Company prepare reports disclosing the Company's non-financial information, such as the Sustainability Report, with reference to international reporting standards or guidelines? Has the said reports been certified or guaranteed by a third-party verification unit? | | No | The Company has not yet compiled it. In the future, it will prepare a timely compilation in consideration of international trends and market changes. | No significant difference |

| Items to be promoted | Status of implementation | | Summary description | Any deviation from the Sustainable Development Best-Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation |
|----------------------|--------------------------|----|---------------------|---|
| | Yes | No | | |

VI. If the Company has established its own sustainable development principles in accordance with the "Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies," please describe the current practices and any deviations from the Principles established:

In order to fulfill its corporate social responsibility and promote economic, environmental and social progress and achieve the goal of sustainable development, the Company refers to the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies for the establishment of the Principles.

VII. Other important information helpful to understand the implementation of corporate social responsibility:

Environmental protection, safety and health: the Company maintains high service quality, not only helping customers improve the service life of the work pieces and improving the processing quality, but also reducing the consumption of the earth's resources. With the goal to fulfill the corporate social responsibility and commitment and the goal of sustainable operation, we promote environmental protection, continue to improve the waste generated by the production process, and reduce the environmental impact of the company's products, activities, and services, in order to achieve pollution prevention purpose.

VI. The state of the company’s performance in the area of ethical corporate management, any deviation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies, and the reason for any such deviation:

| Evaluation Items | Status of Operation | | Summary description | Any deviation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation: |
|---|---------------------|----|--|---|
| | Yes | No | | |
| I. Establishment of ethical corporate management policies and plans (I) Has the Company formulated the ethical management policies approved by the board of directors, and stated in the articles of incorporation and external documents the policies and practices of operating in good faith, and the commitment of the board of directors and senior management to actively implement the ethical management policies? | Yes | | The Company cooperates with the government to actively promote and advocate the core values of ethical corporate management and integrity, and revised the "Ethical Corporate Management Best Practice Principles" of the Company on March 17, 2023 with reference to the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" to align with the practical operation and complete the code of conduct of the Company. These principles have been approved by the Board of Directors, and will be reported during the 2023 annual general meeting. | No significant difference |
| (II) Whether or not the Company has established an assessment mechanism for the risk of unethical conducts, regularly analyzes and assesses the business activities with higher risks of unethical conducts within the business scope, and formulates prevention programs accordingly, covering Paragraph 2, Article 7 of the “Ethical Corporate Management Best Practice Principles for | Yes | | From time to time, the Company advocates that all employees should promptly notify the management of any violation of policies and ethical standards. | No significant difference |

| Evaluation Items | Status of Operation | | Summary description | Any deviation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation: |
|---|---------------------|----|---|---|
| | Yes | No | | |
| TWSE/TPEX Listed Companies?" | | | | |
| (III) Does the Company have the operational procedures, behavior guidelines, punishment and complaint systems clearly defined in the program to prevent unethical conduct and implemented and the program is regularly reviewed and amended? | Yes | | The Company has established a dedicated contact person, contact number and electronic whistle-blowing mailbox. Any alleged unethical practices of the Company's personnel will be handled by a dedicated unit in accordance with the complaint procedures of the "Ethical Corporate Management Best-Practice Principles." | No significant difference |
| II. Implementing ethical corporate management (I) Does the Company evaluate the ethical records of its trading counterparts and specify the ethical conduct clauses in the contracts signed with its trading counterparts? | Yes | | The Company's correspondence on business activities or the signing of contracts with others must be countersigned by the relevant authorities for review and approved by the person with authority, in order to maintain business activities with integrity. | No significant difference |
| (II) Has the Company set up a dedicated unit under the Board of Directors to promote corporate ethical management and has it reported to the Board of Directors regularly (at least once a year) on the implementation of ethical management policies | Yes | | The Company cooperates with the government to actively promote and advocate the core values of ethical corporate management and integrity, and revised the "Ethical Corporate Management Best Practice Principles" of the Company on March 17, 2023 with reference to the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" to align with the practical operation and complete the code of conduct of the Company. | No significant difference |

| Evaluation Items | Status of Operation | | | Any deviation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation: |
|---|---------------------|----|--|---|
| | Yes | No | Summary description | |
| and prevention of unethical conducts and the supervision of such units? | | | These principles have been approved by the 2023 Annual General Meeting of Shareholders. | |
| (III) Has the Company established policies to prevent conflicts of interest, provided appropriate channels of expression, and substantiated the policies? | Yes | | Members of the Board of Directors and managers shall not participate in the decision-making or voting if there is any potential conflict of interest in the decision or transaction. | No significant difference |
| (IV) Has the company established an effective accounting system and internal control system for the implementation of ethical corporate management, and instructed the internal audit unit to formulate relevant audit plans based on the risk evaluation results of the unethical conducts and checked the compliance of the plan in preventing unethical conduct accordingly or entrusted a CPA to perform the audit? | Yes | | To ensure the implementation of ethical corporate management, the Company has established an effective accounting system and internal control system, and internal auditors regularly audit the compliance of each system. | No significant difference |
| (V) Does the Company organize internal and external training on ethical corporate management on a regular basis? | Yes | | The Company pays attention to employees' implementation of the principle of integrity in their daily business. Promotional materials are sent via e-mail from time to time. | No significant difference |
| III. The operation of the Company's whistle-blowing system (I) Does the Company establish a specific whistle-blowing and | Yes | | The Company has established the "Regulations Governing the Administration of Whistleblowing" and set up a dedicated contact person, contact telephone number and electronic | No significant difference |

| Evaluation Items | Status of Operation | | | Any deviation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation: |
|--|---------------------|----|--|---|
| | Yes | No | Summary description | |
| reward system, establish a convenient channel for reporting and assign appropriate dedicated personnel to handle the reported subjects? | | | whistle-blowing mailbox. | |
| (II) Does the Company establish standard operating procedures for the investigation of whistle-blowing matters, the follow-up measures to be taken after the investigation is completed and the related confidentiality mechanism? | Yes | | The Company has established the "Reporting Management Regulations" and established the procedures for handling reported cases, the follow-up measures to be taken after the investigation is completed and the related confidentiality mechanism. | No significant difference |
| (III) Has the Company taken measures to protect the whistleblower from improper treatment due to their whistleblowing? | Yes | | The Company has established the "Regulations Governing the Administration of Whistleblowing" to protect whistleblowers. | No significant difference |
| IV. Strengthening information disclosure Does the company disclose the content of the ethical corporate management principles established by the Company on its website and the Market Observation Post System and the effectiveness of its implementation? | Yes | | Integrity is the foundation of the Company's corporate culture, and the four core values "innovation, differentiation, value and high growth" are developed based on integrity. For related information, please refer to the business philosophy on the Company's website. | No significant difference |
| V. If the Company has established its own ethical corporate management best-practice principles in accordance with the "Ethical Corporate Management Best-Practice Principles for TWSE/GTSM Listed Companies," please describe the current practices and any deviations from the Best-Practice Principles: | | | | |

| Evaluation Items | Status of Operation | | Summary description | Any deviation from the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, and the reason for any such deviation: |
|---|---------------------|----|---------------------|---|
| | Yes | No | | |
| For the operation and implementation of the Company's ethical management, please refer to IV (III) of this annual report, Corporate Governance Implementation and Deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEX-Listed Companies and the reasons therefor. | | | | |
| VI. Other important information helpful to understand the Company's ethical corporate management operations: (e.g., the circumstance in which the Company is reviewing and amending its ethical corporate management best practice principles, etc.) The Company takes integrity as its foundation and is committed to promoting the core values of integrity-based development within the Company, so that integrity can be deeply rooted in the behavior of each employee. | | | | |

VII. Corporate Governance Best Practice Principles and Methods for Inquiring Related Regulations

The Company's Website > Corporate Governance > Regulations Related to Corporate Governance:

[Corporate Governance-Related Regulations - Phonic Governance \(www.twphonic.com\)](http://www.twphonic.com)

| | |
|--|---|
| Phonic Corporation Articles of Incorporation | Ethical Corporate Management Best Practice Principles |
| Corporate Governance Best-Practice Principles | Sustainable Development Best Practice Principles |
| Rules and Procedures of Shareholders' Meeting | Guidelines for the establishment of the board of directors and the exercise of powers |
| Guidelines for the Appointment of Independent Directors and Compliance | Regulations Governing the Election of Directors and Independent Directors |
| Board of Directors' Meeting Procedures | Standard operating procedures for handling directors' requests |
| Charter of the Audit Committee | Charter of the Remuneration Committee |
| Procedures for the Acquisition or Disposal of Assets | Procedures for Loaning Funds to Others and Endorsements and Guarantees |
| Board of Directors Performance Evaluation | Whistle-blowing Management Regulations |

Policy
Sexual Harassment Prevention and Complaint
Guidelines

VIII. Other information material to the understanding of corporate governance practices:

1. In 2023, the continuing education of the Company's directors in accordance with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE-Listed and TPEX-Listed Companies" is as follows:

| Job Title | Name | Organizer | Training courses | Duration of Continuing Education |
|----------------------|--------------|---|---|----------------------------------|
| Independent Director | Chiu Li-Mei | Accounting Research and Development Foundation | Common "Tax Planning" Strategies for Enterprises and Analysis of Related Legal Responsibilities | 3 |
| | | | The latest "ESG sustainability" and "self-preparation of financial statements" related policy development and internal control management practices | 3 |
| Independent Director | Lin Ying-Che | Taiwan Corporate Management and Sustainable Development Association | Local innovation joins hands with enterprises to create a new milestone of ESG | 3 |
| Independent Director | Yao Shun-Yen | Taiwan Corporate Governance Association | Corporate financial statement fraud and case study | 3 |
| Director | Yang Dun-Hui | Securities and Futures Institute | Workshop for the Practice of Directors, Supervisors (including Independent Directors) and Corporate Governance Officers | 12 |
| Director | Wu Hsin-Kai | Securities and Futures Institute | Prevention of insider trading and the latest practical development | 3 |

2. The continuing education of the Company's corporate governance officer in 2023 is as follows:

| Job Title | Name | Organizer | Training courses | Duration of Continuing Education |
|-----------|------|-----------|------------------|----------------------------------|
|-----------|------|-----------|------------------|----------------------------------|

| | | | | |
|---------------------------------------|------------------|-------------------------------------|---|----|
| Corporate governance Supervisor | Kao Wei- Hung | Securities and Futures Institute | Seminar for Directors and Supervisors (including independent directors) and Corporate Governance Officer Practice | 3 |
| | | | Seminar for advanced directors and supervisors (including independence) practices - financial information that directors tend to overlook | 3 |
| | | | Practical Workshop for Directors, Supervisors (including Independent Directors) and Corporate Governance Officer - Taipei Workshop | 12 |

IX. Implementation of the internal control system

1. Declaration of Internal Control

Phonic Corporation
Declaration of Internal Control System

Date: March 14, 2024

Based on the results of the self-assessment, the Company only states the following for the internal control system in 2023:

1. The Company acknowledges that the establishment, implementation and maintenance of the internal control system is the responsibility of the Company's board of directors and managers. The Company has established such a system. The purpose is to provide reasonable support to the effect and efficiency of operations (including profitability, performance, and protection of asset security), the reliability, timeliness and transparency of reporting and compliance with relevant laws and regulations. guarantee.
2. There are inherent limitations to an internal control system. No matter how well-designed, an effective internal control system can only provide reasonable assurance for the achievement of the above three goals. Moreover, as the environment and circumstances change, the effectiveness of an internal control system may vary with such change. However, the Company's internal control system is equipped with a self-monitoring mechanism. The Company will take corrective action once a defect is recognized.
3. The Company judges the effectiveness of the design and implementation of its internal control system in accordance with the criteria specified in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as the "Regulations"). The criteria for determining the internal control system adopted in the Regulations are based on the process of management control. The internal control system is divided into five elements: 1. Control environment; 2. Risk assessment; 3. Control operations; 4 Information and communications; 5. Supervision operations. Each component further includes several items. Please refer to the Regulations for details.
4. The Company has adopted the abovementioned criteria to assess the effectiveness of the design and execution of its internal control system.
5. Based on the evaluation results of above paragraph, the Company believes that the design and implementation of the internal control systems (including the supervision and management of subsidiaries) of the Company as of December 31, 2023, including the internal control systems related to the understanding of the effectiveness of operation and the extent to which efficiency objectives have been achieved, the reliability, timeliness and transparency of reporting and compliance with relevant norms, laws and regulations, are effective, which can reasonably

ensure the achievement of the above objectives.

6. This statement shall be the main content of the Company's annual report and prospectus and shall be made public. Any unlawful act of fictitiousness or non-disclosure in the above-mentioned disclosure may result in legal liability under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchange Act.
7. This Statement was approved by the Board of Directors in their meeting held on March 14, 2024, with none of the 6 attending directors expressing dissenting opinions, and the remainder all agreeing to the content of this Statement.

Phonic Corporation

Chairman: Chou Ching-Wen Signature/ seal

2. If an accountant is commissioned to examine the internal control system on a project basis, the accountant's review report shall be disclosed: None.

X. If there has been any legal penalty against the company or its internal personnel, or any disciplinary penalty by the company against its internal personnel for violation of the internal control system, during the most recent fiscal year or during the current fiscal year up to the publication date of the annual report, where the result of such penalty could have a material effect on shareholder equity or securities prices, the annual report shall disclose the penalty, the main shortcomings, and condition of improvement.

XI. Material resolutions of a shareholders meeting or a board of directors meeting during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report:

1. Regular and Extraordinary Shareholders' Meetings

| Date | Major resolutions and implementation | Resolution Result |
|---|---|---|
| 2023.6.27 Shareholders' Meeting | <ol style="list-style-type: none"> 1. Ratification of the Company's 2022 earnings distribution proposal 2. Ratification of the Company's 2022 earnings distribution proposal 3. Ratification of the amendments to certain provisions of the Company's "Articles of Incorporation" Implementation status: The follow-up announcement and declaration have been completed in accordance with the regulations and the registration change has been approved by the Taipei City Government on 2023/7/18. 4. Approved the amendments to certain provisions of the Company's "Rules and Procedures of Shareholders' Meeting." Implementation status: Uploaded to the MOPS and the Company's corporate governance website after the meeting. 5. Approved the Company's intended private placement of common shares. Implementation status: Announcement and reporting have been completed in accordance with regulations after the meeting. | Proposal Nos. 3 to 5 were approved by the attending shareholders. |
| 2023.8.31 1st Extraordinary Shareholders' Meeting | <ol style="list-style-type: none"> 1. Approved the partial amendments to the "Procedures for Acquisition and Disposal of Assets" of the Company. Implementation status: Uploaded to the MOPS and the Company's corporate governance website after the meeting. | This proposal was approved by the attending shareholders. |

2. Board of Directors

| Date | Important resolution matters |
|------------|---|
| 2023.3.17 | <ol style="list-style-type: none"> 1. The Company's 2022 business report and financial statements. 2. The Company's 2022 earnings distribution proposal 3. Approval of not appropriating 2022 employees' and directors' remuneration. 4. The Company's 2022 internal control system statement. 5. Appointment of CPAs for the 2023 financial statements and evaluation of the independence of CPAs. 6. To repeal and re-formulate the Company's "Ethical Corporate Management Best Practice Principles." 7. To repeal and then re-stipulate the Company's "Corporate Governance Best Practice Principles." 8. To repeal and re-enact the Company's "Rules of Procedures for Board of Directors Meetings." 9. To formulate the "Sustainable Development Best Practice Principles" of the Company. 10. Appointment of the Company's internal audit officer. 11. Proposal for the date, place and convening of the 2023 general shareholders' meeting. 12. Change of the Company's registered address. |
| 2023.5.10 | <ol style="list-style-type: none"> 1. The Company's consolidated financial statements for Q1, 2023. 2. Amendments to certain provisions of the Company's "Articles of Incorporation." 3. Amendments to the "Rules and Procedures of Shareholders' Meeting" of the Company. 4. Private placement of common shares. 5. <u>New matters for convening the 2023 annual shareholders' meeting.</u> |
| 2023.5.31 | <ol style="list-style-type: none"> 1. The appointment of the Company's managers. 2. <u>The Company to sign a general agency contract.</u> |
| 2023.7.14 | <ol style="list-style-type: none"> 1. The lifting of non-compete restrictions on the Company's managers. 2. The Company's reinvestment strategy. 3. Partial amendments to the "Procedures for Acquisition and Disposal of Assets" of the Company. 4. The date, venue and convening of the 1st special shareholders' meeting of the Company in 2023. |
| 2023.8.10 | <ol style="list-style-type: none"> 1. The Company's consolidated financial statements for Q2 2023. |
| 2023.9.8 | <ol style="list-style-type: none"> 1. The Company to reinvest the equity of EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. |
| 2023.11.10 | <ol style="list-style-type: none"> 1. The Company's consolidated financial statements for the third quarter of 2023. 2. Approval of the Company's 2024 audit plan. 3. Approval for adding the "Guidelines Governing the Appointment of the Board of Directors and the Exercise of Powers," "Guidelines Governing The Appointment and Compliance of Independent Directors" and the "Standard Operating Procedures for Handling Directors' Requests." 4. Remuneration items to be implemented in 2024. |

XII. Where, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, a director or supervisor has expressed a dissenting opinion with respect to a material resolution passed by the board of directors, and said dissenting opinion has been recorded or prepared as a written declaration, disclose the principal content thereof: none.

XIII. A summary of resignations and dismissals, during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, of the company's chairperson, general manager, chief accounting officer, chief financial officer, chief internal auditor, chief corporate governance officer and chief research and development officer:

May 10, 2024

| Job Title | Name | Inauguration date | Date of dismissal | Reason for dismissal |
|-----------|---------------|-------------------|-------------------|----------------------|
| President | Wang Min-Lieh | 1976.9.29 | 2023.5.9 | Job adjustment |

V. Public Fees of CPAs

(I) CPA fees:

Public Fees of CPAs

Value: NTD Thousand

| Name of CPA Firm | Name of CPA | Audit period | Audit public expenditure | Non-audit fees | Total | Remarks |
|------------------|------------------|-----------------------|--------------------------|----------------|-------|---------|
| Crowe (TW) CPAs | Wang Chia-Hsiang | 2023/01/01~2023/12/31 | 2,000 | 0 | 2,000 | |
| | Toh Ching-Chuan | | | | | |

(II) When the CPA firm enters its rotation year and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed.

(III) When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 10 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: none.

VI. Replacement of CPA

The change of CPAs in the last 2 years was due to internal rotation of Crowe (CPA) and the Company did not change the CPA firm.

VII. Information on the Company's Chairman, President or any managerial officer in charge of financial or accounting affairs at the accounting firm of the Company or its affiliates in the most recent year:
none.

VIII. Any transfer of equity interests and/or pledge of or change in equity interests by a director, managerial officer, or shareholder with a stake of more than 10 percent in the most recent year or during the current year up to the date of publication of the annual report

Changes in shareholdings of directors, supervisors, managers and major shareholders:

| Job Title | Name | 2023 | | As of April 22 of the current year | |
|---|----------------------------------|------------------------------------|---------------------------------------|------------------------------------|---------------------------------------|
| | | Increase (decrease) of shares held | Increase (decrease) in shares pledged | Increase (decrease) of shares held | Increase (decrease) in shares pledged |
| Juristic person director and major shareholder | Kang Jian Investment Co., Ltd. | 0 | 0 | 0 | 0 |
| Representative of juristic person director and Chairman | Chou Ching-Wen | 0 | 0 | 0 | 0 |
| Representative of juristic person director | Wang Min-Lieh | 0 | 0 | 0 | 0 |
| Representative of juristic person director | Tse Zu-Wei (Note 1) | 0 | 0 | 0 | 0 |
| Representative of juristic person director | Yang Dun-Hui (Note 1 and Note 2) | 0 | 0 | 0 | 0 |
| Representative of juristic person director | Wu Hsin-Kai (Note 2) | 0 | 0 | 0 | 0 |
| Representative of juristic person director | Tan Hung-Hsiang (Note 3) | 0 | 0 | 0 | 0 |
| Representative of juristic person director | Yao Tian-Chi (Note 3) | 0 | 0 | 0 | 0 |
| Independent Director | Lin Ying-Che | 0 | 0 | 0 | 0 |

| | | | | | |
|-------------------------|--------------|---|---|---|---|
| Independent Director | Chiu Li-Mei | 0 | 0 | 0 | 0 |
| Independent Director | Yao Shun-Yen | 0 | 0 | 0 | 0 |

Note 1: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Tse Cho-Wei was relieved of the position on June 21, 2023. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yang Dun-Hui, was appointed as the director.

Note 2: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yang Dun-Hui was relieved of the position on October 30, 2023. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Wu Hsin-Kai, was appointed as the director.

Note 3: The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Tan Hung Hsiang was relieved of the position on January 31, 2024. The representative of juristic person director of Kang Jian Investment Co., Ltd., Mr. Yao Tian-Chi, was appointed as the director.

IX. Relationship information, if among the top ten shareholders any one is a related party or a relative within the second degree of kinship of another

Relationship among the top ten shareholders

April 22, 2024

| Name | Shares held by the owner | | Shares held by spouse and underage children | | Total Shares Held in the Name of Others | | The names and relationships of the top ten shareholders who are related, spouse or relatives within second degree of kinship to each other. | | Remarks |
|--|--------------------------|--------------------|---|--------------------|---|--------------------|---|-------------------------|---------|
| | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Name (or name) | Relationship | |
| Kang Jian Investment Co., Ltd. | 11,636,315 | 58.18% | 0 | 0 | 0 | 0 | None | None | |
| Kang Jian Investment Co., Ltd. Representative: Chou Ching-Wen | 0 | 0 | 0 | 0 | 0 | 0 | None | None | |
| Kang Jian Investment Co., Ltd. Representative: Wang Min-Lieh | 1,151,832 | 5.76% | 0 | 0 | 372,442 | 1.86% | Rung Yi Investment Co., Ltd. | Chairman of the company | |
| Kang Jian Investment Co., Ltd. Representative: Yao Tian-Chi | 0 | 0 | 0 | 0 | 0 | 0 | None | None | |
| Kang Jian Investment Co., Ltd. Representative: Wu Hsin-Kai | 0 | 0 | 0 | 0 | 0 | 0 | None | None | |
| TAIWAN POWDER TECHNOLOGIES CO., LTD. | 1,104,555 | 5.52% | 0 | 0 | 0 | 0 | None | None | |
| Chuang Li-Wen | 547,110 | 2.74% | 0 | 0 | 0 | 0 | None | None | |
| Rung Yi Investment | 372,442 | 1.86% | 0 | 0 | 0 | 0 | Wang Min- | Chairman | |

| Co., Ltd. | | | | | | | Liabilities | Number of the company | |
|-----------------------------|---------|-------|---|---|---|---|-------------|-----------------------|--|
| Hsu Jun | 363,132 | 1.82% | 0 | 0 | 0 | 0 | None | None | |
| Cao Jin-Ling | 303,958 | 1.52% | 0 | 0 | 0 | 0 | None | None | |
| JihSun Investment Co., Ltd. | 280,863 | 1.40% | 0 | 0 | 0 | 0 | None | None | |
| Chiang Cheng-Wen | 259,219 | 1.30% | 0 | 0 | 0 | 0 | None | None | |
| Chang Chih-Hai | 250,000 | 1.25% | 0 | 0 | 0 | 0 | None | None | |

X. Number of Shares Held by the Company, Its Directors, Managers, and Enterprises Controlled Directly or Indirectly by the Company in the Same Reinvestment Business and Its Consolidated Shareholding Percentage

Comprehensive shareholding ratio

Unit: shares; %

| Reinvestment business | The Company's investment | | Directors, Supervisors, Managers, and Directly or Indirectly Controlling Businesses | | Comprehensive investment | |
|--|--------------------------|--------------------|---|--------------------|--------------------------|--------------------|
| | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio | Number of shares | Shareholding ratio |
| Phonic Group, Ltd. | 270,912 | 100% | - | - | 270,912 | 100% |
| Shenzhen Yiba Electronics Co., Ltd. | — | 100% | - | - | — | 100% |
| EVERPOLL HEALTH PLUS WATER TECHNOLOGY, CO., LTD. | 1,966,000 | 21.6% | 2,242,600 | 24.69% | 4,208,600 | 46.25% |

Note: Investments accounted for using the equity method.

Four. Fundraising

I. Capital and shares

(I) Source of share capital

1. Share capital formation process

Unit: NTD thousands; shares

| Year/Month | Issuance Price | Authorized share capital | | Paid-in capital stock | | Remarks | | |
|------------|----------------|--------------------------|---------|-----------------------|---------|---|---|--------|
| | | Number of shares | Amount | Number of shares | Amount | Source of share capital | Property other than cash as payment for share payment | Others |
| 62/03 | 10 | 100,000 | 1,000 | 100,000 | 1,000 | Founding capital | | |
| 65/09 | 10 | 500,000 | 5,000 | 500,000 | 5,000 | Capital increase in cash by 4,000 thousand | | |
| 71/02 | 10 | 1,000,000 | 10,000 | 1,000,000 | 10,000 | Capital increase in cash by NT\$5,000 thousand | - | - |
| 77/01 | 10 | 3,000,000 | 30,000 | 3,000,000 | 30,000 | Capital increase in cash by NT\$20,000 thousand | - | - |
| 78/09 | 10 | 10,000,000 | 100,000 | 10,000,000 | 100,000 | Capital increase in cash by NT\$70,000 thousand | - | - |
| 79/12 | 10 | 15,000,000 | 150,000 | 15,000,000 | 150,000 | Capital increase in cash by NT\$50,000 thousand | - | - |
| 89/11 | - | 25,400,000 | 254,000 | 17,600,000 | 176,000 | Capital increase of NT\$23,700 thousand from retained earnings Bonus to employees NT\$489 thousand Capital reserve NT\$1,811 thousand | - | Note 1 |
| 90/11 | - | 25,400,000 | 254,000 | 20,361,500 | 203,615 | Capital increase of NT\$26,400 thousand from retained earnings Bonus to employees: NT\$1,215 thousand | - | Note 2 |
| 91/9 | - | 25,400,000 | 254,000 | 23,606,600 | 236,066 | Capital increase of NT\$30,542 thousand from retained earnings Bonus to employees amounted to NT\$1,909 thousand | - | Note 3 |

| | | | | | | | | |
|--------|---|------------|---------|------------|---------|--|---|--------|
| 92/8 | - | 25,400,000 | 254,000 | 25,266,000 | 252,660 | Capital increase of NT\$14,164 thousand from retained earnings Bonus to employees: NT\$2,430 thousand | - | Note 4 |
| 93/8 | - | 38,000,000 | 380,000 | 29,025,240 | 290,252 | Capital increase of NT\$35,372 thousand from retained earnings Bonus to employees: NT\$2,220 thousand | - | Note 5 |
| 110/10 | - | 38,000,000 | 380,000 | 20,000,000 | 200,000 | Capital reduction against losses of NT\$90,252 thousand | - | Note 6 |

Note 1: Approved by Tai-Cai-Zheng-(1) No. 71552 from Securities and Futures Commission, Ministry of Finance on 2000/8/21.

Note 2: Approved by (90) Tai-Cai-Zheng-(1)-Zi No. 154871 issued by Securities and Futures Commission of the Ministry of Finance on 2001/8/30.

Note 3: Approved by Tai-Cai-Zheng-(1)-Zi-0910140342 approved by Securities and Futures Commission, Ministry of Finance on 2002/7/19.

Note 4: Approved by Tai-Cai-Zheng-(1)-Zi No. 0920131650 issued by Securities and Futures Commission of the Ministry of Finance on 7/15/2003.

Note 5: Approved by Tai-Cai-Zheng-(1)-Zi 0930132149 of the Securities and Futures Bureau on 2004/07/19.

Note 6: Approved by Taipei Exchange Zheng-Kuei-Jien-Zhi 1100010853 on 2021/10/7.

2. Type of shares issued

| Type of shares | Authorized share capital | | | Remarks |
|-------------------------|--------------------------|-----------------|------------|--------------------------------|
| | Outstanding shares | Unissued shares | Total | |
| Registered common stock | 20,000,000 | 18,000,000 | 38,000,000 | The stock is listed under TPEx |

3. Relevant information of shelf registration system: Not applicable.

(II) Shareholder structure

April 22, 2024

| Shareholder structure Quantity | Government agencies | Financial institutions | Other corporate entities | Individual | Foreign institutions and foreigners | Total |
|-----------------------------------|---------------------|------------------------|--------------------------|------------|-------------------------------------|------------|
| Number of people | - | - | 83 | 601 | 1 | 685 |
| Number of | - | - | 13,398,061 | 6,601,650 | 289 | 20,000,000 |

| | | | | | | |
|--------------------|---|---|--------|--------|----|------|
| shares held | | | | | | |
| Shareholding ratio | - | - | 66.99% | 33.01% | 0% | 100% |

Note: Companies listed on TWSE/TPEX and emerging stock markets shall disclose the proportion of shareholding by Mainland Chinese investors. Mainland Chinese investors refer to the people, legal persons, groups, other institutions in Mainland China, or its investees in a third region, stipulated in Article 3 of the “Regulations on Permission for People from Mainland China to Invest in Taiwan.”

(III) Shareholding diversification

1. Common stock

April 22, 2024

| Shareholding classification | Number of shareholders | Number of shares held | Shareholding ratio % |
|---|------------------------|-----------------------|----------------------|
| 1 to 999 | 458 | 83,207 | 0.42 |
| 1,000 to 5,000 | 121 | 247,001 | 1.24 |
| 5,001 to 10,000 | 29 | 220,612 | 1.1 |
| 10,001 to 15,000 | 17 | 216,951 | 1.08 |
| 15,001 to 20,000 | 6 | 105,705 | 0.53 |
| 20,001 to 30,000 | 9 | 215,538 | 1.08 |
| 30,001 to 40,000 | 6 | 218,577 | 1.09 |
| 40,001 to 50,000 | 10 | 468,874 | 2.34 |
| 50,000 to 100,000 | 14 | 1,132,554 | 5.66 |
| 100,001 to 200,000 | 3 | 383,535 | 1.92 |
| 200,001 to 400,000 | 8 | 2,267,634 | 11.34 |
| 400,001 to 600,000 | 1 | 547,110 | 2.74 |
| 600,001 to 800,000 | 0 | 0 | 0 |
| 800,001 to 1,000,000 | 0 | 0 | 0 |
| 1,000,001 and above based on the actual situation | 3 | 13,892,702 | 69.47 |
| Total | 685 | 20,000,000 | 100.00 |

2. Special shares: None.

(IV) List of Major Shareholders

April 22, 2024

| Name of major shareholder | Number of shares held | Shareholding ratio |
|--------------------------------|-----------------------|--------------------|
| Kang Jian Investment Co., Ltd. | 11,636,315 | 58.18% |

| | | |
|-------------------------------------|-----------|-------|
| Wang Min-Lieh | 1,151,832 | 5.76% |
| Taiwan Union Technology Corporation | 1,104,555 | 5.52% |
| Chuang Li-Wen | 547,110 | 2.74% |
| Rung Yi Investment Co., Ltd. | 372,442 | 1.86% |
| Hsu Jun | 363,132 | 1.82% |
| Cao Jin-Ling | 303,958 | 1.52% |
| JihSun Investment Co., Ltd. | 280,863 | 1.40% |
| Chiang Cheng-Wen | 259,219 | 1.30% |
| Chang Chih-Hai | 250,000 | 1.25% |

(V) Information on Market Price, Net Worth, Earnings, Dividends and Related Information per Share for the Recent Two Years

| Item | | Year | |
|------------------------------------|--|----------------|----------------|
| | | 2022 | 2023 |
| Market price per share (Note 1) | Maximum | 43.00 | 43.85 |
| | Minimum | 30.00 | 30.55 |
| | Average | 38.82 | 37.18 |
| Net value per share (Note 2) | Before distribution | 12.26 | 13.42 |
| | After distribution | 12.26 | 13.42 |
| Earnings per share | Weighted average number of shares | 20,000,000 | 20,000,000 |
| | Earnings per share (Note 3) | (0.35) | 1.17 |
| Dividends per share | Cash dividends | - | - |
| | Bonus stock dividend | - | - |
| | | - | - |
| | Accumulated unpaid dividends (Note 4) | - | - |
| Analysis of investment return | Price-earnings ratio (Note 5) | Not applicable | 31.78 |
| | P/P ratio (Note 6) | Not applicable | Not applicable |
| | Cash dividend yield (Note 7) | - | - |

Note 1: The highest and lowest market prices of common shares in each year are presented, and the average market price in each year is calculated based on the transaction values and trading volumes in each year.

Note 2: Based on the number of issued shares at the end of the year and filled in accordance with the distribution resolved by the shareholders' meeting of the following year.

Note 3: Earnings per share before and after adjustments are retrospectively adjusted due to share grants.

Note 4: When the accumulation of undistributed dividends of the year until the year when there is profit for distribution is a condition for the issue of equity securities, disclose the undistributed dividends by the year of

report publication.

Note 5: Price to earnings ratio = average closing price per share for the year/earnings per share.

Note 6: Price to dividends ratio = average closing price per share for the year/cash dividend per share.

Note 7: Cash dividends yield = dividends per share/average closing price per share for the year.

(VI) Company's dividend policy and implementation

1. The Company's dividends policy under the Articles of Incorporation:

The Company's dividend policy complies with the Company Act and the Articles of Incorporation and is prepared in response to the Company's capital planning to achieve stable business goals. The process, method and amount of future dividends distribution are as follows:

(1) Dividends distribution procedure:

In accordance with the Company Act, the Company's dividend distribution procedure shall take place at the end of each fiscal year. The Board of Directors, taking into account the Company's profitability and future operating needs, prepares the earnings distribution proposal and submits it to the shareholders' meeting for ratification.

(2) Dividends distribution method:

The Company will distribute dividends in three manners, namely, capitalization of earnings, capitalization of capital surplus and cash dividends.

(3) Dividend distribution policy:

The percentage of dividends distributed by the Company shall, in principle, be no less than 20% in cash and the rest paid in the form of stock dividends.

2. Dividend distribution proposed at the shareholders' meeting:

The Company's 2023 distribution of earnings was approved by the Board of Directors on March 14, 2024. In consideration of the Company's future operational development needs, it is proposed not to distribute earnings this year, and to retain NT\$41,935,974 from undistributed earnings at the end of the period.

(VII) Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting: Not applicable.

(VIII) Profit-sharing compensation of employees, directors, and supervisors

1. The percentages or ranges with respect to employee, director and supervisor profit-sharing compensation, as set forth in the company's articles of incorporation:

In accordance with Article 28 of the Company's Articles of Incorporation, no less than 2% of the current income before tax before deduction of the remuneration to the Company's employees and directors as the remuneration to directors and no more than 1% thereof as the remuneration to directors. However, if the Company still has accumulated losses (including the adjustment of the amount of undistributed earnings), it shall first retain the amount to offset it.

The remuneration to employees in the preceding paragraph may be paid in the form of shares or in cash, and the recipients of the payment may include the employees of the subordinate company who meet the conditions set forth by the Board of Directors. The remuneration to directors referred to in the preceding paragraph may only be paid in cash.

The preceding two paragraphs shall be implemented per resolution of the Board of Directors and reported to the shareholders' meeting.

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

If there is any discrepancy between the actual distributed amount and the estimated number, the difference is recognized as an expense for the year and the estimation method is reviewed.

3. Information on any approval by the board of directors of distribution of profit-sharing compensation:

- (1) The amount of remuneration distributed to all employees, directors, and supervisors in cash or shares. If there is any discrepancy between the amount and the estimated amount of the expense recognized, the discrepancy, cause and treatment status shall be disclosed:

The Company's Board of Directors approved the provision of NT\$590,000 as remuneration to employees and NT\$140,000 to directors in 2023, which was not different from the estimated amount recognized in the year.

- (2) The amount of any employee profit-sharing compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee profit-sharing compensation: The Company did not distribute stock to employees as remuneration.

4. The actual distribution of employee, director, and supervisor profit-sharing compensation for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancies between the actual distribution and the recognized employee, director or supervisor profit-sharing compensation, additionally the discrepancy, cause and how it is treated:

The Company's shareholders' meeting on June 27, 2023 resolved not to allocate 2022 remuneration to employees and directors, and there was no difference from the estimated amount recognized for the year.

(IX) Status of a company repurchasing its own shares: None.

- II. Issuance of corporate bonds:** Not applicable.
- III. Disclosure of preferred shares:** Not applicable.
- IV. Global depository receipts:** Not applicable.
- V. Issuance of employee stock options:** Not applicable.
- VI. Issuance of new restricted employee shares:** Not applicable.
- VII. Issuance of new shares in connection with the acquisition or transfer of shares of other companies:** Not applicable.
- VIII. Implementation of Capital Utilization Plan:** Not applicable.

Five. Operational overview

I. Business Scope

(I) Scope of business

1. Main business activities:

CC01030 Electrical Appliances and Audiovisual Electronic Products Manufacturing.

CC01080 Electronics Components Manufacturing.

F401010 International Trade.

F106010 Wholesale of Hardware.

F106020 Wholesale of Daily Commodities.

F113020 Wholesale of Electrical Appliances.

F206010 Retail Sale of Hardware.

F206020 Retail sale of daily commodities.

F213010 Retail Sale of Electrical Appliances.

ZZ99999 All business activities that are not prohibited or restricted by law, except those that are subject to special approval.

2. Weight of business

Weight of business (2023)

Unit: NTD thousands

| Product item | Amount | Weight of business (%) |
|------------------|---------|------------------------|
| Mixers | 8,192 | 4.79 |
| Power Amplifiers | 43,276 | 25.32 |
| Speakers | 82,228 | 48.11 |
| Others | 37,229 | 21.78 |
| Total | 170,925 | 100.00 |

3. The Company's current products

(1)Mixers

(2)Power Amplifiers

(3)Powered Mixers

(4)Speakers

(5)Signal Processors

(6)Test equipment

(7)Commercial video & audio equipment

4. New products planned to be developed

(1)Consumer products - sound toning circuit modules:

Transistor, vacuum tube and analog reel and tape recorders produced in different eras have their own classic and unique tones. In the real world, the warmth of traditional analog devices and the familiarity unique to tape machines cannot be reproduced through digital signal processing or frequency sampling. The integrated circuit developed by the Company can sense and analyze the input audio in real time, and skillfully restore the classic sound color, making the sound fuller and more immersive.

(2) Digital matrix processor for advanced engineering:

The digital matrix processor needs to have the ability to integrate the sound system in multiple areas and the intuitive graphic interface design is the key to the installation requirements in retail, education or various commercial environments. The user can configure, set up and manage the entire audio solution through the intuitive interface configuration of the software application. This series of R&D focuses can be divided into two categories. The first type has different digital audio processing and network expansion capabilities and the second type has built-in high-efficiency Class-D power amplifiers that can be used in concert tours or designed to overcome the implementation of commercial fixed installation of audio systems. This series has different output power and modularization and has flexible input and output connection capabilities for the installation environment.

(II) Industry overview

1. Current status and development of the industry

For the purpose of adjusting the manufacturing structure and upgrade the technical level, the government has screened emerging industries that are suitable for the development of Taiwan based on the principles of market potential, added value, technical level and pollution level. Among them, the consumer electronics industry is one of them; their four major categories are audio products, video products, other consumer electronics and important precision components.

The consumer electronic audio products initially produced radios. After the production of vacuum tube radios, record players and portable radios, due to the gradual expansion of the product market and the increasing innovation of technology, the audio product market was booming in the 1960s and 1970s. Its mainstream products such as Portable stereo, CD stereo and video recorder are all very popular. Afterwards, due to the rise of land prices and wages in Taiwan, the production cost gradually increased, and the industry became more mature and no longer competitive. Therefore, the number of manufacturers began to decrease, or the production bases were transferred to mainland China or Southeast Asia, while the remaining manufacturers shifted towards the development of high value-added professional

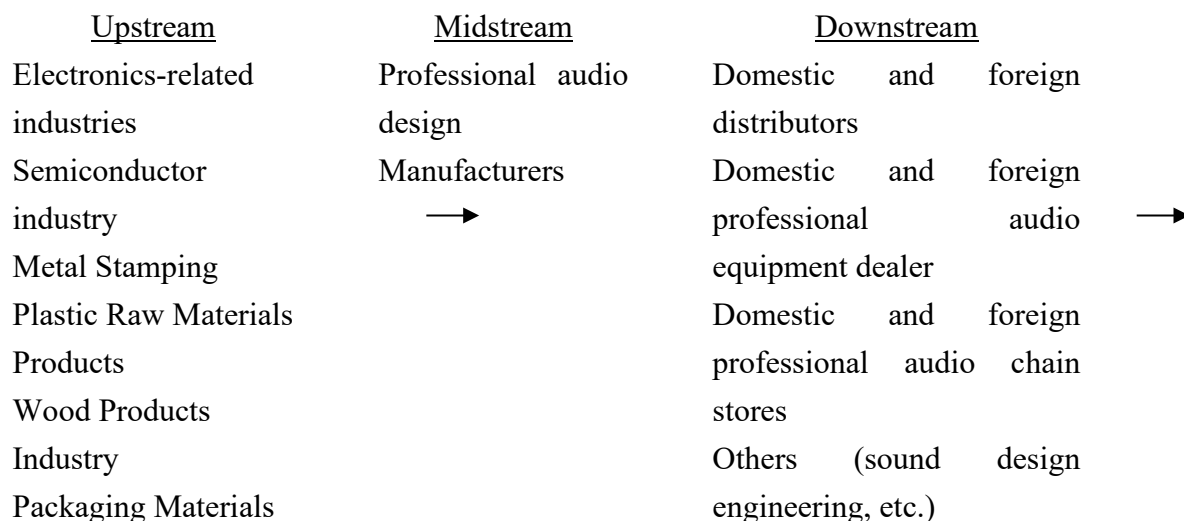
audio products. Since the 1980s, due to the rapid global economic growth, the living standards of the people have improved, industrial technology has become increasingly advanced, the level of entertainment consumption has become increasingly diversified, and entertainment venues such as PUB, large and small concerts and nightclubs have flourished, coupled with the rapid development of the PC industry, which leads to the vigorous development of production and audio control and processing software and has greatly lowered the entrance barrier to music and become an affordable entertainment for everyone. Therefore, audio and video product technology has shifted from analog to digital and professional. It has become a world trend and is widely known as the multimedia industry. The living standards in developed countries such as Europe, the United States and Japan are relatively high and the national consumption income is higher than other regions. Therefore, many digital music-related software and hardware have been classified as 3C products in order to drive the birthplace of the consumer entertainment trend. It has also appeared in major hypermarkets and has become an important sales product, which has also become the main source of profit for Taiwan's digital audio product OEM manufacturers. In recent years, the purchasing power of the people has increased significantly with the growth of wages, but the same and similar products have become cheaper with the improvement of production technology. This proves that music performance and production are no longer the exclusive possession of a few wealthy classes but it has become a national sport.

According to the music industry (MI) information collected by the CIA Word Factbook, the top five major markets in the world over the past decade are the U.S., Japan, Germany, China, and the U.K., which account for more than 70% of the global market share. The most important thing for automated audio/video engineering equipment is the technical ability and quality stability. At present, the first-class manufacturers are concentrated in the United States and Japan. The Company has gradually accumulated the technical strength equivalent to the first-class manufacturers. Since 2015, with the gradual rise of webcasting, the combination of audio and video has become a market trend. The Company is committed to the development of related audio and video products to respond to market needs and provide the best solutions.

2. Correlation between up-stream, mid-stream and down-stream of the industry

Audio and video products have a wide range of upstream raw materials, including electronics-related industries, semiconductors, metal stamping, plastic materials, wood products and packaging materials, while downstream products are domestic and foreign distributors, professional audio equipment manufacturers, professional audio chain stores. The correlation among the upstream, midstream and downstream of the

Company's industries is shown in the figure below:



3. Product development trends

Product development trends will be divided into the following three types:

- (1) Combination and application of new technologies: In response to the growing popularity of personal computer music and audio-video entertainment environment, product digitization and new audio interface will be the mainstream trend in the future.
- (2) Modern appearance: Just like other popular communication and computer products, ID design will play a critical role in product sales.
- (3) Portability: Since professional audio products are no longer only used on stage or recording studio, the use of portability will drive another wave of growth.

4. Competition situation

In the lower-priced market, manufacturers from emerging countries such as Mainland China compete with each other. However, as the functions, quality and brand awareness of such vendors are far lower than those of the first-tier vendors, there is no competition between the first-tier and second-tier vendors.

(III) Technology and R&D overview

1. R&D expenses in the most recent year and up to the date of publication of this annual report

Unit: NTD thousands

| Year | 2022 | 2023 | 2024 Q1 |
|--------------|-------|-------|---------|
| R&D expenses | 2,387 | 1,662 | 699 |

2. Successfully developed technologies or products

| Products | Narration |
|------------------------------------|--|
| AM GE series iMX9090 series | High-quality sound mixer series, upgrade the professional recording sound quality interface and fully optimize the I/O pre-stage and appearance of the product. Fully optimized the effect device/VU meter and other operation interfaces to the high-end LED design, and fully upgraded the amplifier power. |

(IV) Long-term and short-term business development plans

1. Short-term plans:

(1) Marketing strategy:

Promote the Company's products, increase market share, and enhance brand image through a global network of agents.

(2) Production strategy:

Commit to process improvement and quality control to improve management efficiency and customer satisfaction.

(3) R&D strategy:

Continue the development of audio-visual equipment for construction, digital professional audio and differentiated small audio-visual products for the general consumers.

2. Long-term plan:

(1) Marketing strategy:

Participate in important exhibitions in major foreign markets to increase brand status and sales, find potential customers, establish sales channels, and differentiate products to avoid price competition.

(2) Production strategy:

Integrate internal and external resources and give full play to organizational capabilities to increase production capacity, and strengthen the flexibility and efficiency of business development and production processes.

(3) R&D strategy:

Actively train R&D talents and accumulate core technologies to achieve the leading position in professional audio.

II. Market, Production and Sales

(I) Market analysis

1. Sales regions of the Company's main products (2023)

Unit: NTD thousands

| Regions | Amount | Percentage (%) |
|-----------|---------|----------------|
| USA | 21,099 | 12.34 |
| China | 10,263 | 6.01 |
| Hong Kong | 82,075 | 48.02 |
| Turkey | 22,481 | 13.15 |
| Others | 35,007 | 20.48 |
| Total | 170,925 | 100.00 |

2. Market share, future supply and demand, and growth

Demand:

In addition to the traditional market, with the integration of multimedia functions in computer products; recording and editing of music through computers; the rise of personal recording studio players; and the development of new technologies resulting in an increase in demand.

Supply side:

For products using linear technology, Chinese manufacturers and a few Taiwanese manufacturers have quickly won OEM orders from Europe and the United States. However, it will take more than five years for these digital and wireless manufacturers to catch up with the Company. Moreover, the distribution and marketing at the other end of the Smile curve are the only other vendors in Asia other than Yamaha that have these capabilities, which gives the Phonic brand a level of competition with brands in Europe and the United States.

Potential for growth:

The Company has built a global sales channel, has leading technology and currently has a market share of less than 1%. As long as we continue to recruit professionals and work hard in the established direction, market share and stable profit growth will be just around the corner.

3. Competitive advantage

The Company has many years of experience in the field of professional audio, and the production base is deeply cultivated in China, which gives the Company a greater

advantage. In addition, Phonic Company's main competitive advantage lies in branding and sales channels. Generally, it takes decades to establish a brand in the professional audio market. At present, Phonic Company has established a brand image of the same level as that of international professional audio manufacturers such as Mackie and Behringer, and has established sales channels in more than 90 countries around the world.

4. Favorable and unfavorable factors of development prospects and countermeasures

(1) Favorable factors

- a. Due to the increase in demand, professional audio began to grow again.
- b. Establish joint R&D teams and mechanisms in Taipei and Shenzhen to effectively implement product R&D.
- c. Preferred CP value.
- d. Re-branding has been completed, from middle quality to upper middle quality.

(2) Unfavorable factors and countermeasures

Competitors from China and Southeast Asia enter the market at low prices.

Responsive measures:

- a. Develop market- and application-forward-looking products and gain a better market position.
- b. Enter the mid-to-high-priced market through quality improvement and branding.

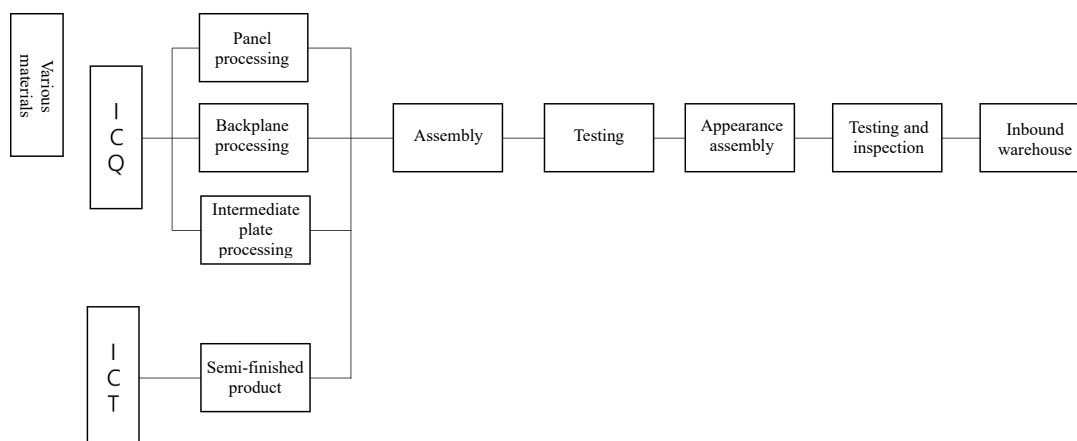
(II) Important uses and production processes of main products

1. Important uses of main products

| Main products | Main product purpose |
|-----------------------------|--|
| Sound mixer | A device that mixes multiple input sound sources and adds sound effects after mixing. Example: Sending multiple microphones, electric Guitars, keyboards or CDs to the mixer for processing during a concert. |
| Sound mixing amplifier | Parallel mixer and power amplifier functions. |
| Power Amplifier | Amplify the voltage and current from the front-end device (sound mixer) to have sufficient output power to drive the speakers. |
| Signal processor | Process the signal with effects, such as equalizing the signal quality, spatial surround signal processing, signal compression and expansion. |
| Fully automatic audio/video | Covers sound processing and image processing, and is used in CUHK projects. |

| | |
|-----------|--|
| equipment | |
|-----------|--|

2. Production process



(III) Supply of main raw materials

| Raw material name | Supplier name | Supply regions | Status of supply |
|---------------------|--------------------------------------|----------------|-------------------|
| IC crystal | Ivytech Corp., Avnet Singapore, etc. | Domestic | Sufficient supply |
| Variable resistance | Fu-Hua and more. | Domestic | Sufficient supply |

(IV) Names of customers accounting for more than 10% of total purchases (sales) in any of the recent two years, the amount of purchases (sales) and proportion and explain the reasons for changes.

1. Information on major customers in the most recent two years

Unit: NTD thousands

| Item | 2022 | | | | 2023 | | | |
|------|-----------|--------|---|------------------------------|-----------|---------|---|------------------------------|
| | Name | Amount | Proportion to net sales of the whole year (%) | Relationship with the issuer | Name | Amount | Proportion to net sales of the whole year (%) | Relationship with the issuer |
| 1 | 1PU15 | 21,382 | 21.91 | None | 1PA102 | 82,075 | 48.02 | None |
| 2 | 30U10 | 14,926 | 15.29 | None | 1PA128 | 22,481 | 13.15 | None |
| 3 | 1PA133 | 10,375 | 10.63 | None | 1PU15 | 10,708 | 6.26 | None |
| | Others | 50,24 | 52.17 | — | Others | 55,661 | 32.58 | — |
| | Net sales | 97,607 | 100.00 | — | Net sales | 170,925 | 100.00 | — |

Analysis of increase/decrease:

The epidemic has stabilized and the ban on entertainment activities has been lifted, which has increased the demand in the audio market. The number of customers and net sales increased significantly compared to the previous year.

2. Information on major suppliers in the last two years

Unit: NTD thousands

| Item | 2022 | 2023 |
|------|------|------|
|------|------|------|

| | Name | Amount | Proportion to net purchase of the year (%) | Relationship with the issuer | Name | Amount | Proportion to net purchase of the year (%) | Relationship with the issuer |
|---|--------------|--------|--|------------------------------|---------------------------------|--------|--|------------------------------|
| 1 | P050082 | 4,149 | 6.00 | None | P000001 | 7,472 | 8.76 | None |
| 2 | P140002 | 3,281 | 4.77 | None | P090083 | 6,397 | 7.50 | None |
| 3 | P110057 | 2,835 | 4.12 | None | C0001 EVERPOLL Filtration | 4,890 | 5.73 | Note 1 |
| | Others | 58,468 | 85.07 | — | Others | 66,521 | 78.01 | — |
| | Net purchase | 68,733 | 100.00 | — | Net purchase | 85,280 | 100.00 | — |

Note 1: The relationship with the issuer is that of the invested company under the equity method

Analysis of increase/decrease:

The epidemic has stabilized and the ban on entertainment activities has been lifted, which has increased the demand in the audio market. The number of customers and net sales increased significantly compared to the previous year, which in turn led to an increase in net purchases.

(V) Production Volume and Value Table for the Most Recent Two Years

Unit: NTD thousands

| Year Production volume value Main products | 2022 | | | 2023 | | |
|---|---------------------|-------------------|------------------|---------------------|-------------------|------------------|
| | Production capacity | Production volume | Production value | Production capacity | Production volume | Production value |
| Sound mixer | 6,447 | 5,480 | 15,539 | 2,241 | 1,905 | 6,408 |
| Amplifier | 15,551 | 13,219 | 34,802 | 10,591 | 9,002 | 26,697 |
| Speaker | 3,462 | 2,943 | 5,510 | 9,942 | 8,451 | 41,947 |
| Others | 560 | 476 | 1,914 | 86 | 73 | 286 |
| Total | 26,020 | 22,118 | 57,765 | 22,860 | 19,431 | 75,338 |

(VI) Sales volume and value in the most recent two years

Unit: NTD thousands

| Year Sales volume and value Main products | 2022 | | | | 2023 | | | |
|---|----------------|-------|--------------|--------|----------------|--------|--------------|---------|
| | Domestic sales | | Export sales | | Domestic sales | | Export sales | |
| | Quantity | Value | Quantity | Value | Quantity | Value | Quantity | Value |
| Sound mixer | 359 | 1,876 | 7,113 | 19,177 | 242 | 791 | 1,671 | 7,401 |
| Amplifier | 154 | 1,000 | 13,937 | 52,264 | 434 | 2,756 | 8,414 | 40,520 |
| Speaker | 4 | 27 | 2,937 | 11,453 | 40 | 269 | 14,066 | 81,959 |
| Others | 510 | 2,770 | 3,416 | 9,040 | 6,400 | 7,579 | 1,617,030 | 29,650 |
| Total | 1,027 | 5,673 | 27,403 | 91,934 | 7,116 | 11,395 | 1,641,181 | 159,530 |

Note: Others refer to the microphones, raw materials, and components purchased by the Company instead of being produced. There are many different types of microphones, which will not be disclosed.

III. Employees

Information on employees in the most recent two years and up to the publication date of the annual report

May 10, 2024

| Year | | 2022 | 2023 | As of May 10, 2024 |
|--------------------------------|---------------------|------|------|--------------------|
| Number of employees | Managerial Officers | 4 | 2 | 2 |
| | R&D personnel | 3 | 3 | 3 |
| | Regular employees | 10 | 12 | 12 |
| | Total | 17 | 17 | 17 |
| Average age | | 50 | 51 | 51 |
| Average years of service | | 9.67 | 8.91 | 9.68 |
| Educational distribution ratio | Doctoral Degree | - | 9% | 6% |
| | Master's Degree | 24% | 18% | 12% |
| | University | 71% | 64% | 76% |
| | Senior High School | 6% | 9% | 6% |
| | Below high school | - | - | - |

IV. Information on environmental protection expenditure

Any losses suffered by the company in the most recent fiscal year and up to the annual report publication date due to environmental pollution incidents (including any compensation paid and any violations of environmental protection laws or regulations found in environmental inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, and the content of the dispositions) and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: None.

V. Labor/management relations

- (I) With the purpose to enhance employee welfare, the Company has appropriated welfare funds in accordance with the law and established the Employee Welfare Committee in 1985 (Approval No. 1985.11.8 Bei-Shih-Fu.-Zi No. 662). The welfare items include:
1. Labor insurance (subject to labor insurance regulations), employee group insurance.
 2. Gift money for the three major festivals and year-end dinner.
 3. Marriage and birth allowance.
 4. Consolation payment for hospitalization and disability.
 5. Funeral consolation money (including parents, spouse, children).
 6. Travel subsidies.

7. Employee health examination (as required by the Labor Standards Act).

(II) Continuing education and training:

In addition to providing employee education and training for new recruits, the Company also sends external or internal training from time to time according to individual business needs.

| Item | Total Attendance | Total Hours | Total expenses |
|--------------------------------|------------------|-------------|----------------|
| Training for new recruits | 0 | 0 | 0 |
| Managerial competency training | 1 | 48 | 33,500 |
| Professional training | 3 | 54 | 31,962 |
| Total | 4 | 102 | 36,692 |

(III) Retirement system and its implementation:

To stabilize the employees' retirement life and improve the spirit of service, the Company adopts the new system of the "Labor Pension Act." Therefore, the employer contributes 6% of the total salary to the individual account of the Bureau of Labor Insurance on a monthly basis.

(IV) Status of agreements between labor and management and the protection of employees' rights and interests:

The Company signs confidentiality contracts with employees upon arrival and informs employees of the principles, including the rights and obligations of both employers and employees.

(V) List any losses suffered by the company in the most recent fiscal year and up to the annual report publication date due to labor disputes (including any violations of the Labor Standards Act found in labor inspection, specifying the disposition dates, disposition reference numbers, the articles of law violated, the substance of the legal violations and the content of the dispositions) and disclosing an estimate of possible expenses that could be incurred currently and in the future and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided: none.

VI. Cyber security management

(I) Describe the cyber security risk management framework, cyber security policies, concrete management programs, and investments in resources for cyber security management.

1. Information security risk management framework:

The Company strengthens information security management to ensure the confidentiality, integrity and availability of its information assets to provide an information environment for the continuous operation of the Company's business, and information security inspections are conducted from time to time.

2. Cyber security policy:

- (1) The President's Office is responsible for the coordination and promotion of information security management related matters.
- (2) The Company's personnel shall comply with the Company's information and confidentiality regulations.
- (3) The Company's suppliers, third-party vendors and outsourced service providers shall comply with the Company's information security regulations.
- (4) In case of an information security incident, the contact person for information security shall be notified.
- (5) For any act that endangers information security, the Company will pursue civil, criminal and administrative liabilities depending on the severity of the circumstances, or handle it in accordance with the relevant regulations of the Company.

3. Information security management plan and resources invested in information communication security management:

- (1) Network and computer system security management.
- (2) System access control, development and maintenance security management.
- (3) Security management of information assets.
- (4) Install network firewall and anti-virus software, set folder access permissions and update passwords regularly.
- (5) Regular and irregular virus scanning and maintenance of the Company's computer equipment, network equipment and servers.

In the most recent year and up to the date of publication of the annual report, there was no material adverse event in the Company's information security management.

- (II) List any losses suffered by the company in the most recent fiscal year and up to the annual report publication date due to significant cyber security incidents, the possible impacts therefrom and measures being or to be taken. If a reasonable estimate cannot be made, an explanation of the facts of why it cannot be made shall be provided.

As of the date of publication of this annual report for 2023, the Company did not suffer any major information and communication security incident and there was no related loss or impact.

VII. Material Contracts: Not applicable.

Six. Financial Overview

I. Condensed balance sheets and statements of comprehensive income for the most recent five years, showing the name of the auditor and the audit opinion

(I) Condensed balance sheet and statement of comprehensive income

Condensed balance sheet

Unit: NTD thousands

| Year | | Financial information for the most recent five years (Note 1) | | | | |
|---|---------------------|---|----------|----------|-----------|-----------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Item | | | | | | |
| Current assets | | 195,756 | 287,609 | 263,645 | 83,785 | 93,478 |
| Investment under equity method | | 144,281 | - | - | - | - |
| Property, plant and equipment | | 43,341 | 43,844 | 44,238 | 30,807 | 61,549 |
| Right-of-use assets | | - | 2,203 | 4,559 | 3,015 | - |
| Investment property | | - | - | - | 55,728 | 26,628 |
| Intangible assets | | - | - | - | 143 | 383 |
| Other assets | | 412 | 1,918 | 4,142 | 4,398 | 3,269 |
| Total assets | | 383,790 | 335,574 | 316,584 | 177,876 | 185,307 |
| Current liabilities | Before distribution | 83,936 | 60,433 | 30,452 | 18,908 | 21,245 |
| | After distribution | (Note 2) | 60,433 | 30,452 | 18,908 | 21,245 |
| Non-current liabilities | | 31,482 | 29,920 | 34,101 | 690 | 529 |
| Total liabilities | Before distribution | 115,418 | 90,353 | 64,553 | 19,598 | 21,774 |
| | After distribution | (Note 2) | 90,353 | 64,553 | 19,598 | 21,774 |
| Equity attributable to owners of the parent company | | | | | | |
| Share capital | | 200,000 | 200,000 | 200,000 | 290,252 | 290,252 |
| Capital reserve | | 18,210 | 18,210 | 18,200 | 18,200 | 1,860 |
| Retained earnings | Before distribution | 64,308 | 40,829 | 47,766 | (136,588) | (114,634) |
| | After distribution | (Note 2) | 40,829 | 47,766 | (136,588) | (114,634) |
| Other equity | | (14,146) | (13,818) | (13,935) | (13,586) | (13,945) |
| Treasury stock | | - | - | - | - | - |

| | | | | | | |
|---------------------------|---------------------|----------|---------|---------|---------|---------|
| Non-controlling interests | | - | - | - | - | - |
| Total equity | Before distribution | 268,372 | 245,221 | 252,031 | 158,278 | 163,533 |
| | After distribution | (Note 2) | 245,221 | 252,031 | 158,278 | 163,533 |

Note 1: The above financial information of the last five years has been audited by the CPAs.

Note 2: The amount after distribution for 2023 has not yet been resolved by the Shareholders' Meeting.

Condensed Statement of Comprehensive Income

Unit: NTD thousands

| Year Item | Financial information for the most recent five years (Note 1) | | | | |
|---|---|---------|----------|----------|----------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Operating revenue | 170,925 | 97,607 | 58,414 | 57,617 | 111,727 |
| Gross profit (loss) | 61,227 | 24,987 | 3,568 | 5,248 | 25,314 |
| Operating income | 26,103 | (6,591) | (25,677) | (27,761) | (26,549) |
| Non-operating income and expenses | 2,771 | 2,417 | 124,957 | 4,480 | 12,432 |
| Profit (loss) before tax | 28,874 | (4,174) | 99,280 | (23,281) | (14,117) |
| Net income (loss) from continuing operations | 23,479 | (6,937) | 94,102 | (23,278) | (17,634) |
| Losses from discontinued operations | - | - | - | - | - |
| Net income (loss) | 23,479 | (6,937) | 94,102 | (23,278) | (17,634) |
| Other comprehensive income for the period (net amount after tax) | (328) | 117 | (349) | 1,683 | 1,710 |
| Total comprehensive income for the period | 23,151 | (6,820) | 93,753 | (21,595) | (15,924) |
| Net income (loss) attributable to owners of the parent company | 23,479 | (6,937) | 94,102 | (23,278) | (17,634) |
| Net income (loss) attributable to non-controlling equity | - | - | - | - | - |
| Total comprehensive income attributable to owners of the parent company | 23,151 | (6,820) | 93,753 | (21,595) | (15,924) |
| Total comprehensive income attributable to non-controlling interests | - | - | - | - | - |
| Earnings (losses) per share | 1.17 | (0.35) | 4.71 | (1.16) | (0.88) |

Note 1: The above financial information of the last five years has been audited by the CPAs.

Condensed parent company only balance sheet

Unit: NTD thousands

| Year | | Financial information for the most recent five years (Note 1) | | | | |
|---|---------------------|---|----------|----------|-----------|-----------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Item | | | | | | |
| Current assets | | 172,274 | 265,425 | 251,642 | 65,997 | 73,898 |
| Investment under equity method | | 179,047 | - | - | - | - |
| Property, plant and equipment | | 41,625 | 41,780 | 41,966 | 27,198 | 56,393 |
| Investment property | | - | - | - | 55,728 | 26,628 |
| Intangible assets | | - | - | - | 143 | 383 |
| Other assets | | 17 | 15,828 | 14,160 | 28,283 | 34,244 |
| Total assets | | 392,963 | 323,033 | 307,768 | 177,349 | 191,546 |
| Current liabilities | Before distribution | 93,109 | 47,892 | 23,959 | 18,381 | 27,669 |
| | After distribution | (Note 2) | 47,892 | 23,959 | 18,381 | 27,669 |
| Non-current liabilities | | 31,482 | 29,920 | 31,778 | 690 | 344 |
| Total liabilities | Before distribution | 124,591 | 77,812 | 55,737 | 19,071 | 28,013 |
| | After distribution | (Note 2) | 77,812 | 55,737 | 19,071 | 28,013 |
| Equity attributable to owners of the parent company | | | | | | |
| Share capital | | 200,000 | 200,000 | 200,000 | 290,252 | 290,252 |
| Capital reserve | | 18,210 | 18,210 | 18,200 | 18,200 | 1,860 |
| Retained earnings | Before distribution | 64,308 | 40,829 | 47,766 | (136,588) | (114,634) |
| | After distribution | (Note 2) | 40,829 | 47,766 | (136,588) | (114,634) |
| Other equity | | (14,146) | (13,818) | (13,935) | (13,586) | (13,945) |
| Treasury stock | | | | | | |
| Total equity | Before distribution | 268,372 | 245,221 | 252,031 | 158,278 | 163,533 |
| | After distribution | (Note 2) | 245,221 | 252,031 | 158,278 | 163,533 |

Note 1: The above financial information of the last five years has been audited by the CPAs.

Note 2: The amount after distribution for 2023 has not yet been resolved by the shareholders' meeting.

Condensed parent company only statement of comprehensive income

Unit: NTD thousands

| Item \ Year | Financial information for the most recent five years (Note 1) | | | | |
|--|---|---------|----------|----------|----------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Operating revenue | 160,663 | 86,185 | 52,769 | 52,450 | 101,961 |
| Gross profit (loss) | 34,056 | 15,445 | 11,390 | 5,350 | 24,062 |
| Operating income | 4,959 | (9,059) | (10,750) | (19,584) | (13,004) |
| Non-operating income and expenses | 23,301 | 4,885 | 110,030 | (3,697) | (1,113) |
| Profit (loss) before tax | 28,260 | (4,174) | 99,280 | (23,281) | (14,117) |
| Net income (loss) from continuing operations | 23,479 | (6,937) | 94,102 | (23,278) | (17,634) |
| Losses from discontinued operations | - | - | - | - | - |
| Net income (loss) | 23,479 | (6,937) | 94,102 | (23,278) | (17,634) |
| Other comprehensive income for the period (net amount after tax) | (328) | 117 | (349) | 1,683 | 1,710 |
| Total comprehensive income for the period | 23,151 | (6,820) | 93,753 | (21,595) | (15,924) |
| Earnings (losses) per share | 1.17 | (0.35) | 4.71 | (1.16) | (0.88) |

Note 1: The above financial information of the last five years has been audited by the CPAs.

(II) Names of CPAs and Audit Opinions for the Most Recent Five Years

| Year | CPA Firm | Name of CPA | Audit Opinions |
|------|-----------------|-----------------------------------|---|
| 2023 | Crowe (TW) CPAs | Wang Chia-Hsiang, Toh Ching-Chuan | Paragraph of unqualified opinion plus other matters |
| 2022 | Crowe (TW) CPAs | Wang Chia-Hsiang, Toh Ching-Chuan | Unqualified opinion |
| 2021 | Crowe (TW) CPAs | Wang Chia-Hsiang, Toh Ching-Chuan | Unqualified opinion |
| 2020 | Crowe (TW) CPAs | Pan Chin-Shu, Chou Bo-Ru | Unqualified opinion |
| 2019 | Crowe (TW) CPAs | Lin Chun-Chi, Lin Chin-Feng | Unqualified opinion |

II. Financial analysis for the most recent five years

(I) Financial analysis - consolidated

| Analysis item (Note 3) | | Financial analysis for the most recent five years | | | | |
|------------------------|--|---|--------|---------|----------|----------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Financial structure % | Debt to asset ratio | 30.07 | 26.92 | 20.39 | 11.02 | 11.75 |
| | Long-term capital to property, plant and equipment ratio | 691.85 | 627.55 | 646.80 | 516.01 | 266.56 |
| Solvency (%) | Current ratio | 233.22 | 475.91 | 865.77 | 443.12 | 440.00 |
| | Quick ratio | 208.27 | 436.97 | 828.13 | 354.11 | 318.05 |
| | Interest coverage ratio | 50.00 | (6.00) | 409.56 | (107.79) | - |
| Operating capacity | Accounts receivable turnover (times) | 27.73 | 17.02 | 6.57 | 6.05 | 5.50 |
| | Average collection days | 13.16 | 21.45 | 55.56 | 60.33 | 66.00 |
| | Inventory turnover (times) | 7.07 | 5.31 | 5.45 | 3.30 | 2.58 |
| | Payable turnover rate (times) | 6.74 | 5.18 | 4.90 | 4.97 | 2.93 |
| | Average number of days of sales | 51.63 | 68.74 | 66.97 | 110.61 | 141.00 |
| | Property, plant and equipment turnover (times) | 3.92 | 2.22 | 1.56 | 1.25 | 1.77 |
| | Total asset turnover (times) | 0.48 | 0.30 | 0.24 | 0.32 | 0.55 |
| Profitability | Return on assets (%) | 6.66 | (1.99) | 38.14 | (12.72) | (8.74) |
| | Return on equity (%) | 9.14 | (2.79) | 45.87 | (14.47) | (10.28) |
| | Pre-tax income to paid-in capital ratio (%) (Note 7) | 14.44 | (2.09) | 49.64 | (8.02) | (4.86) |
| | Net profit margin (%) | 13.74 | (7.11) | 161.09 | (40.40) | (15.78) |
| | Earnings per share (NTD) | 1.17 | (0.35) | 4.71 | (1.16) | (0.88) |
| Cash flow | Cash flow ratio (%) | 17.47 | 35.56 | 12.74 | (36.09) | 166.38 |
| | Cash flow adequacy ratio (%) | 45.54 | (32.8) | (73.46) | (74.50) | (234.72) |
| | Cash reinvestment ratio (%) | 4.28 | 6.83 | 1.21 | (3.32) | 16.52 |
| Level of leverage | Operating leverage | 1.43 | (0.89) | 0.41 | 0.21 | (0.23) |
| | Financial leverage | 1.02 | 0.92 | 0.99 | 0.99 | 1.00 |

Reasons for changes in the financial ratios in the last two years:

1. Financial structure: Mainly due to the investment in affiliated companies using the equity method, the 2024 investment payment to be paid is estimated in accordance with the contract, resulting in an increase in liabilities.
2. Solvency: The investment in affiliated companies using the equity method resulted in a significant decrease in cash

equivalents, resulting in a decrease in the current ratio and quick ratio; an increase in revenue and income before tax this year, resulting in an increase in the interest coverage ratio.

3. Operating ability: Due to the slowdown of the pandemic and the recovery of international shipping capacity gradually returning to normal, resulting in a significant increase in net sales for the period, customers being able to accept payments within the expected time, and accounts receivable turnover has increased greatly and a decrease in the average collection days.
4. Changes in profitability: Mainly due to the increase in sales and income before tax in the current period, resulting in a significant increase in profitability.
5. Cash flow: Due to the increase in sales, the accounts receivable increased, the contract liabilities decreased significantly, and the accounts payable decreased, resulting in a decrease in net cash inflow from operating activities; in addition, the investment in affiliated companies under the equity method led to a decrease in working capital, resulting in cash flow ratio and cash reinvestment ratio to decrease.

Note 1: The above financial information of the last five years has been audited by the CPAs.

Note 2: The following formulas should be listed at the end of the annual report:

1. Financial structure

- (1) Liabilities to assets ratio = total liabilities/total assets.
- (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities) / net property, plant and equipment.

2. Solvency

- (1) Current ratio = current assets/current liabilities.
- (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
- (3) Interest coverage ratio = pre-income tax and interest income/interest expense for the current period.

3. Management ability

- (1) Accounts receivable (including accounts receivable and notes receivable arising from operations) turnover rate = net sales/average receivables for each period (including accounts receivable and notes receivable arising from operations).
- (2) Average collection days = 365/account receivable turnover.
- (3) Inventory turnover = cost of goods sold/average inventory.
- (4) Payables (including accounts payable and notes payable arising from business operations) turnover = cost of goods sold/balance of average payables for each period (including accounts payable and notes payable arising from business operations).
- (5) Average inventory turnover days = 365/inventory turnover.
- (6) Property, plant and equipment turnover = net sales/average net property, plant and equipment.
- (7) Total asset turnover = net sales/average total assets.

4. Profitability

- (1) Return on assets = (net income + interest expenses x (1 - tax rate)) / average total assets.

- (2) Return on equity = net income/average total equity.
 - (3) Net profit margin = net income/net sales.
 - (4) Earnings per share = (profit or loss attributable to parent company shareholders - preferred share dividend) /weighted average number of outstanding shares. (Note 3)
5. Cash flow
- (1) Cash flow ratio = net cash flow from operating activities/current liabilities.
 - (2) Net cash flow adequacy ratio = net cash flow from operating activities for the most recent five years / (capital expenditure + increase in inventory + cash dividend) for the most recent five years.
 - (3) Cash reinvestment ratio = (net cash flow from operating activities - cash dividend) / (gross property, plant and equipment + long-term investment + other non-current assets + working capital). (Note 4)
6. Leverage:
- (1) Operating leverage = (net operating revenue - variable operating costs and expenses) / operating income (Note 5).
 - (2) Financial leverage = operating income / (operating income - interest expense).

Note 3: Pay special attention to the following when measuring earnings per share with the above formula:

1. Based on the weighted average number of common shares, not the number of issued shares at the end of the year.
2. Where there is a capital increase by cash or treasury stock traded, the weighted average number of shares shall be calculated taking into account the outstanding period.
3. In the case of recapitalization from earnings or from capital surplus, the retroactive adjustment shall be made on a pro rata basis subject to the proportion of capital increase when calculating the EPS for the past years and for a half of the year, without taking the circulation period of the capital increase into consideration.
4. If the preferred shares are non-convertible cumulative preferred shares, the dividends for the year (whether distributed or not) shall be deducted from the net profit or added to the net loss. In the case of non-cumulative preferred stock, the preferred stock dividends shall be deducted from the net profit after tax, if any; notwithstanding, no adjustment is required, in the case of loss.

Note 4: The cash flow analysis shall pay special attention to the following matters when measuring:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the Cash Flow Statement.
2. Capital expenditure refers to the annual cash outflow for capital investment.
3. The increase in inventory is calculated only when the ending balance is greater than the beginning balance. If the inventory at the end of the year decreases, it is calculated as zero.
4. Cash dividends include cash dividends from common shares and preference shares.
5. Gross property, plant and equipment is the total amount of property, plant and equipment before accumulated depreciation.

Note 5: The issuer should divide various operating costs and operating expenses into fixed and variable ones

by nature. If estimates or subjective judgments are involved, they should pay attention to their reasonableness and maintain consistency.

Note 6: For shares of the Company that have no par value or a par value other than NTD 10 per share, the aforementioned calculation of the ratio of paid-in capital is changed to the equity ratio attributable to the owners of the parent company in the balance sheet.

(II) Financial analysis - parent company only

| Analysis item (Note 3) | | Financial analysis for the most recent five years | | | | |
|------------------------|--|---|----------|----------|----------|------------|
| | | 2023 | 2022 | 2021 | 2020 | 2019 |
| Financial structure % | Debt to asset ratio | 31.71 | 24.09 | 18.11 | 10.75 | 14.62 |
| | Long-term capital to property, plant and equipment ratio | 720.37 | 658.55 | 676.28 | 584.49 | 290.60 |
| Solvency (%) | Current ratio | 185.02 | 554.22 | 1050.30 | 359.05 | 267.08 |
| | Quick ratio | 176.42 | 543.19 | 1036.89 | 330.11 | 221.09 |
| | Interest coverage ratio | 53 | (8) | 556 | - | - |
| Operating capacity | Accounts receivable turnover (times) | 26.27 | 15.15 | 5.97 | 5.54 | 5.03 |
| | Average collection days | 13.89 | 24.09 | 61.14 | 65.88 | 72.00 |
| | Inventory turnover (times) | 76.06 | 44.23 | 54.95 | 10.92 | 7.21 |
| | Payable turnover rate (times) | 6.80 | 8.30 | 3.49 | 2.27 | 0.90 |
| | Average number of days of sales | 4.80 | 8.25 | 6.64 | 33.43 | 50.00 |
| | Property, plant and equipment turnover (times) | 3.85 | 2.06 | 1.53 | 1.25 | 1.78 |
| | Total asset turnover (times) | 0.45 | 0.27 | 0.22 | 0.28 | 0.39 |
| Profitability | Return on assets (%) | 6.68 | (2.09) | 38.85 | (12.62) | (6.70) |
| | Return on equity (%) | 9.14 | (2.79) | 45.87 | (14.47) | (10.28) |
| | Pre-tax income to paid-in capital ratio (%) (Note 7) | 14.13 | (2.09) | 49.64 | (8.02) | (4.86) |
| | Net profit margin (%) | 14.61 | (8.05) | 178.33 | (44.38) | (17.30) |
| | Earnings per share (NTD) | 1.17 | (0.35) | 4.71 | (1.16) | (0.88) |
| Cash flow | Cash flow ratio (%) | 6.35 | 40.59 | 11.60 | (52.70) | (132.31) |
| | Cash flow adequacy ratio (%) | (41.63) | (180.68) | (198.59) | (949.59) | (1,614.08) |
| | Cash reinvestment ratio (%) | 1.92 | 6.90 | 0.96 | (8.44) | (24.06) |
| Level of leverage | Operating leverage | 2.72 | 0.31 | 0.38 | (1.81) | (6.09) |
| | Financial leverage | 1.12 | 0.95 | 0.98 | 1.00 | 1.00 |

Reasons for changes in the financial ratios in the last two years:

1. Financial structure: This is mainly due to the investment in affiliates using the equity method and the payable investment for 2024 estimated in accordance with the contract, resulting in an increase in liabilities; and an increase in operations and an increase in raw material purchases, resulting in an increase in accounts payable - related parties and the ratio of debt to assets and long-term funds to property, plant and equipment increased from the previous period.
2. Solvency: (1) Current ratio and quick ratio: The current assets decreased significantly due to the payment to the

reinvested company in the current period, resulting in a decrease in the current ratio and quick ratio. (2) Interest coverage ratio: The significant increase in revenue and income before tax in the current period resulted in a significant increase in coverage ratio of interest coverage ratio.

3. Operating capacity: (1) Accounts receivable turnover rate and average collection days: This is due to the recovery of the economy from the slowdown of the pandemic in the current period, the return of international transport capacity to normal, the significant increase in sales and the significant increase in accounts receivable turnover rate and decrease in average collection days. (2) Inventory turnover rate, accounts receivable turnover rate, and average days of sales: Due to a large number of orders received in the previous period, a large amount of materials preparation and production and thus the sales volume in the current period increased significantly, resulting in the elimination of inventory. (3) Property, plant and equipment turnover rate and total assets turnover rate: Due to the slowdown of the epidemic and the significant increase in sales in the current period.
4. Profitability increased from the previous period: Mainly due to the increase in sales, the profit increased significantly from the previous period.
5. Cash flow: Due to the investment in the affiliate under the equity method in the current period, the payable investment for 2024 according to the contract estimate, the current liabilities increased, and the cash flow ratio decreased. The decrease in net cash flow from operating activities and the increase in long-term investments resulted in a decrease in the cash reinvestment ratio.
6. Leverage: Due to the increase in operating revenue and profit, the operating leverage and financial leverage increased.

Note 1: The above financial information of the last five years has been audited by the CPAs.

Note 2: The following formulas should be listed at the end of the annual report:

1. Financial structure
 - (1) Liabilities to assets ratio = total liabilities/total assets.
 - (2) Long-term capital to property, plant and equipment ratio = (total equity + non-current liabilities) / net property, plant and equipment.
2. Solvency
 - (1) Current ratio = current assets/current liabilities.
 - (2) Quick ratio = (current assets - inventory - prepaid expenses) / current liabilities.
 - (3) Interest coverage ratio = pre-income tax and interest income/interest expense for the current period.
3. Management ability
 - (1) Accounts receivable (including accounts receivable and notes receivable arising from operations) turnover rate = net sales/average receivables for each period (including accounts receivable and notes receivable arising from operations).
 - (2) Average collection days = 365/account receivable turnover.
 - (3) Inventory turnover = cost of goods sold/average inventory.
 - (4) Payables (including accounts payable and notes payable arising from business operations) turnover = cost of goods sold/balance of average payables for each period (including accounts payable and

notes payable arising from business operations).

- (5) Average inventory turnover days = $365/\text{inventory turnover}$.
 - (6) Property, plant and equipment turnover = $\text{net sales}/\text{average net property, plant and equipment}$.
 - (7) Total asset turnover = $\text{net sales}/\text{average total assets}$.
4. Profitability
- (1) Return on assets = $(\text{net income} + \text{interest expenses} \times (1 - \text{tax rate})) / \text{average total assets}$.
 - (2) Return on equity = $\text{net income}/\text{average total equity}$.
 - (3) Net profit margin = $\text{net income}/\text{net sales}$.
 - (4) Earnings per share = $(\text{profit or loss attributable to parent company shareholders} - \text{preferred share dividend}) / \text{weighted average number of outstanding shares}$. (Note 3)
5. Cash flow
- (1) Cash flow ratio = $\text{net cash flow from operating activities}/\text{current liabilities}$.
 - (2) Net cash flow adequacy ratio = $\text{net cash flow from operating activities for the most recent five years} / (\text{capital expenditure} + \text{increase in inventory} + \text{cash dividend})$ for the most recent five years.
 - (3) Cash reinvestment ratio = $(\text{net cash flow from operating activities} - \text{cash dividend}) / (\text{gross property, plant and equipment} + \text{long-term investment} + \text{other non-current assets} + \text{working capital})$. (Note 4)
6. Leverage:
- (1) Operating leverage = $(\text{net operating revenue} - \text{variable operating costs and expenses}) / \text{operating income}$ (Note 5).
 - (2) Financial leverage = $\text{operating income} / (\text{operating income} - \text{interest expense})$.

Note 3: Pay special attention to the following when measuring earnings per share with the above formula:

1. Based on the weighted average number of common shares, not the number of issued shares at the end of the year.
2. Where there is a capital increase by cash or treasury stock traded, the weighted average number of shares shall be calculated taking into account the outstanding period.
3. In the case of recapitalization from earnings or from capital surplus, the retroactive adjustment shall be made on a pro rata basis subject to the proportion of capital increase when calculating the EPS for the past years and for a half of the year, without taking the circulation period of the capital increase into consideration.
4. If the preferred shares are non-convertible cumulative preferred shares, the dividends for the year (whether distributed or not) shall be deducted from the net profit or added to the net loss. In the case of non-cumulative preferred stock, the preferred stock dividends shall be deducted from the net profit after tax, if any; notwithstanding, no adjustment is required, in the case of loss.

Note 4: The cash flow analysis shall pay special attention to the following matters when measuring:

1. Net cash flow from operating activities refers to the net cash inflow from operating activities in the Cash Flow Statement.
2. Capital expenditure refers to the annual cash outflow for capital investment.
3. The increase in inventory is calculated only when the ending balance is greater than the beginning

balance. If the inventory at the end of the year decreases, it is calculated as zero.

4. Cash dividends include cash dividends from common shares and preference shares.
5. Gross property, plant and equipment is the total amount of property, plant and equipment before accumulated depreciation.

Note 5: The issuer should divide various operating costs and operating expenses into fixed and variable ones by nature. If estimates or subjective judgments are involved, they should pay attention to their reasonableness and maintain consistency.

Note 6: For shares of the Company that have no par value or a par value other than NTD 10 per share, the aforementioned calculation of the ratio of paid-in capital is changed to the equity ratio attributable to the owners of the parent company in the balance sheet.

III. Audit Committee's Review Report on the Financial Report for the Most Recent Year: (Please refer to Appendix 1)

IV. Financial report for the most recent year, including the independent auditor's report, two-year contrasted balance sheets, comprehensive income statement, statement of changes in equity, cash flow statement and notes or tables: (please refer to Appendix 2 for details)

V. Parent company only financial statement of the most recent year audited and certified by the CPA (but does not include a list of important accounts statements): (please refer to Appendix 3)

VI. If the Company or its affiliates have experienced financial difficulties in the most recent year and up to the date of publication of the annual report, the impact on the Company's financial position shall be listed:
Not applicable.

Seven. Review and Analysis of Financial Position and Financial Performance, and Risks

(I) Financial position

Unit: NTD thousands

| Item \ Year | 2023 | 2022 | Difference | |
|--|----------|----------|----------------------------|----------|
| | Amount | Amount | Increase (decrease) amount | % |
| Current assets | 195,756 | 287,609 | (91,853) | -31.94% |
| Investment under equity method | 144,281 | - | 144,281 | 100% |
| Property, plant and equipment | 43,341 | 43,844 | (503) | -1.15% |
| Right-of-use assets | - | 2,203 | (2,203) | -100.00% |
| Investment property | - | - | - | - |
| Intangible assets | - | - | - | - |
| Other assets | 412 | 1,918 | (1,506) | -78.52% |
| Total assets | 383,790 | 335,574 | 48,216 | 14.37% |
| Current liabilities | 83,936 | 60,433 | 23,503 | 38.89% |
| Non-current liabilities | 31,482 | 29,920 | 1,562 | 5.22% |
| Total liabilities | 115,418 | 90,353 | 25,065 | 27.74% |
| Share capital | 200,000 | 200,000 | 0 | 0.00% |
| Capital reserve | 18,210 | 18,210 | 0 | 0.00% |
| Legal reserve | 3,082 | 3,082 | 0 | 0.00% |
| Special reserves | 16,942 | 16,942 | 0 | 0.00% |
| Retained earnings (losses to be covered) | 44,284 | 20,805 | 23,479 | 112.85% |
| Other adjusted items of shareholders' equity | (14,146) | (13,818) | (328) | 2.37% |
| Total shareholders' equity | 268,372 | 245,221 | 23,151 | 9.44% |

Analysis of changes in the percentage of increase or decrease:

1. Current assets decreased by 31% from the previous year, mainly due to the payment of investment to reinvestment companies by the Company in 2023.
2. The decrease in right-of-use assets is mainly due to the expiration of the lease of the subsidiary's plant.
3. Other assets: Mainly due to the decrease in deferred income tax assets.
4. Changes in current liabilities and total liabilities: Mainly due to the estimation of investment payables.
5. Retained earnings: due to the significant increase in net income after tax in 2023.

(II) Financial performance

Unit: NTD thousands

| Item | Year | 2023 | 2022 | Difference | |
|---|------|---------|---------|-------------------------------|----------|
| | | Amount | Amount | Increase (decrease) amount | % |
| Total operating revenue | | 171,023 | 97,637 | 73,318 | 75.12% |
| Less: sales returns | | - | - | 0 | |
| Sales discount | | 98 | 30 | 68 | 226.67% |
| Net operating revenue | | 170,925 | 97,607 | 73,318 | 75.12% |
| Operating cost | | 109,698 | 72,620 | 37,078 | 51.06% |
| Gross operating profit | | 61,227 | 24,987 | 36,240 | 145.04% |
| Operating expenses | | 35,124 | 31,578 | 3,546 | 11.23% |
| Operating profit (loss) | | 26,103 | (6,591) | 32,694 | -496.04% |
| Non-operating income and expenses | | 2,771 | 2,417 | 354 | 14.65% |
| Pre-tax profit (loss) from continuing operations | | 28,874 | (4,174) | 33,048 | -791.76% |
| Income tax benefits (expenses) | | (5,395) | (2,763) | (2,632) | 95.26% |
| Net profit (loss) from continuing operations | | 23,479 | (6,937) | 30,416 | -438.46% |
| Other comprehensive income (net amount after tax) | | (328) | 117 | (445) | -380.34% |
| Total comprehensive income | | 23,151 | (6,820) | 29,971 | -439.46% |

Analysis of changes in the percentage of increase or decrease:

1. Operating revenue, operating cost, operating profit and operating loss:

With the lifting of lockdowns in Europe and the US, large-scale entertainment and gatherings have resumed and customers have begun placing orders. In China, lockdowns have been lifted due to the slowdown in the pandemic, allowing product manufacturing and delivery to resume as normal. Moreover, the return of international logistics rates and capacity to normal, resulting in compensating sales in 2023, there was a significant increase in annual revenue and a significant increase in operating costs. The annual operating gross profit greatly increase and operating loss greatly decrease.

2. Net income before and after tax:

Mainly due to the lifting of the global epidemic lockdown, the Company's revenue increased significantly, resulting in a significant increase in net operating income for the current period.

(III)Cash flow

(I) Analysis of cash flow changes in the most recent year

Unit: NTD thousands

| Cash balance as of January 1, 2023 | Net cash flow from operating activities for the whole year | Net cash flow from non-operating activities for the whole year | Cash balance as of December 31, 2023 |
|------------------------------------|--|--|--------------------------------------|
| 259,768 | 14,663 | (109,479) | 164,188 |

1. Operating activities: It is expected that the net cash flow from operating activities in 2023 will remain stable.
2. Investing activities: cash outflow for acquisition of office equipment.
3. Financing activities: mainly cash outflow for repayment of long-term borrowings and lease payables.

(II) Improvement plan for insufficient liquidity: None

(III) Liquidity analysis for the coming year

Unit: NTD thousands

| Beginning of period Cash balance | Expected net cash flow from operating activities for the year | Estimated for the whole year Cash outflow | Projected cash surplus (deficit) amount | Expected cash shortage Remedies | |
|----------------------------------|---|---|---|---------------------------------|----------------|
| | | | | Investment plan | Financing plan |
| 154,926 | 10,000 | 20,000 | 144,926 | - | - |

(IV)Impacts of major capital expenditures in the most recent year on financial operations

Not applicable

(V) Re-investment policy in the most recent year, the main reason for profit or loss, improvement plan and investment plan for the coming year

- (I) Reinvestment policy and the reason for the loss: The Company indirectly invests in Shenzhen Yiba Electronics Co., Ltd. through Phonic Group, Ltd., mainly for the production of the Company's self-owned brand and OEM products. Except for the PHONIC brand sold in mainland China, the products produced by Shenzhen Yiba Electronics Co., Ltd. are sold directly or indirectly to the Company. Therefore, the production volume of Shenzhen Yiba Electronics Co., Ltd. is determined by the number

of orders received by the Company. With the lifting of lockdowns in Europe and the US, large-scale entertainment and gatherings have resumed and customers have begun placing orders. In China, lockdowns have been lifted due to the slowdown in the pandemic, allowing product manufacturing and delivery to resume as normal. Moreover, the return of international logistics rates and capacity to normal, resulting in compensating sales in 2023, there was a significant increase in annual revenue and a significant increase in operating costs.

(II) Improvement plan

The Company has reviewed the production process and adopted the policy of outsourcing for non-technical core business to reduce the scale of operation; in addition, the Company has actively developed the audio-video integration engineering business to enhance the business energy, and has turned from deficit to profit.

(III) Investment plan for the coming year

The Company has continued to focus on business transformation in the near future and is expected to achieve breakeven between profit and loss this year. No new investment plan is currently available.

(VI) Analysis and assessment of risk matters in the most recent year and up to the publication date of this annual report

(I) The effect upon the company's profits (losses) of interest and exchange rate fluctuations and changes in the inflation rate and response measures to be taken in the future:

1. Interest rate:

(1) Impact on the Company's profit or loss

The interest rate continued to rise in the current period, resulting in an increase in the interest income of the Company's bank deposits and interest expenses of long-term borrowings, but the difference between the amounts was not significant.

(2) Future countermeasures

At this stage, we will continue to observe the overall economic status, assess the timing of interest rate reversal and reduce capital costs.

2. Changes in foreign exchange rates:

(1) Impact on the Company's profit or loss:

The Company's products are mainly exported and the exchange rate quotations of the products are based on USD. Most of the main raw materials are purchased from domestic suppliers. Therefore, changes in exchange rates have an impact on the Company's revenue and profit.

(2) Concrete measures in response to exchange rate changes

- A. The Sales Department takes into account the price adjustment caused by exchange rate fluctuations when quoting to protect the Company's profits.
- B. Collect information on exchange rate changes from time to time to keep abreast of exchange rate trends, open foreign currency accounts to adjust foreign exchange positions and control exchange rate risks.
- C. Continue to accelerate the recovery days of accounts receivable to reduce the position exposed to exchange risk.

3. The impact of inflation on the Company's profit and loss:

(1) Impact on the Company's profit or loss:

The overall producer price index is relatively low year-over-year and the consumer price index is also low, indicating significantly low inflation pressure. Therefore, inflation has no significant impact on the company.

(2) Future countermeasures: None.

(II) The company's policy regarding high-risk investments, highly leveraged investments, loans to other parties, endorsements, guarantees and derivatives transactions; the main reasons for the profits/losses generated thereby; and response measures to be taken in the future:

1. As of the date of publication of the annual report, the Company did not engage in high-risk investment, high-leverage investment, loaning of funds to others, endorsements/guarantees or derivatives trading.

2. The Company has established "Procedures for the Acquisition or Disposal of Assets," "Guidelines for Lending Funds to Others" and "Guidelines for Endorsements and Guarantees," which have been approved by the shareholders' meeting for record. If necessary, the Company will adopt the established procedures in the future to execute relevant procedures.

(III) Research and development work to be carried out in the future and further expenditures expected for research and development work:

In the future, the Company will develop multi-format and configurable high-resolution broadcasters, sound mixers, video signal synchronizers and digital special effects machines. It is expected that the total investment in R&D manpower, materials used and testing will be less than 10% of the turnover.

(IV) Effect on the company's financial operations of important policies adopted and changes in the legal environment at home and abroad and measures to be taken in response: Not applicable.

(V) Effect on the company's financial operations of developments in science and technology as well as industrial change, and measures to be taken in response:

In recent years, PC has been widely used, and peripheral products have been developed with each passing day, which will create new business opportunities for the Company, and develop consumer products that combine computer and audio functions, which is conducive to the popularization of professional audio.

(VI) Effect on the company's crisis management of changes in the company's corporate image, and measures to be taken in response: Not applicable.

(VII) Expected benefits and possible risks associated with any merger and acquisitions, and mitigation measures being or to be taken: Not applicable.

(VIII) Expected benefits and possible risks associated with any plant expansion, and countermeasures: Not applicable.

(IX) Risks associated with any consolidation of sales or purchases, and mitigation measures being or to be taken: Not applicable.

(X) Effect upon and risk to the company in the event a major quantity of shares belonging to a director, supervisor, or shareholder holding greater than a 10 percent stake in the company has been transferred or has otherwise changed hands, and mitigation measures being or to be taken: Not applicable.

(XI) Effect upon and risk to company associated with any change in governance personnel or top management, and mitigation measures being or to be taken: Not applicable.

(XII) Litigious and non-litigious matters. List major litigious, non-litigious or administrative disputes that: (1) involve the company and/or any company director, any company supervisor, the general manager, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the company; and (2) have been concluded by means of a final and unappealable judgment, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the prices of the company's securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of publication of the annual report: Not applicable.

(XIII) Other important risks and mitigation measures being or to be taken:

Information security risk: In order to implement information security management, the Company has formulated detailed operating rules related to information security management and implemented the information work plan accordingly. The plan strictly manages employee application system access and file data permissions and security maintenance, firewalls, email anti-virus and anti-hack, and backup plans have been

established to control and audit employees' use of permissions and records to reduce information security risk.

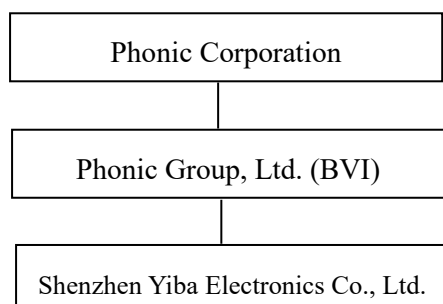
(VII) Other important matters

None.

Eight. Special Notes

I. Information on affiliates

(I) Organization Chart of Affiliated Enterprises



(II) Information on affiliates

| Company name | Date of incorporation | Address | Paid-up capital | Main business or production items |
|-------------------------------------|-----------------------|--|----------------------|--|
| Phonic Group, Ltd. (BVI) | 2000.11.03 | Clarence Thomas Building, P.O. Box 4649, Road Town, Tortola, British Virgin Islands | US Dollars \$270,912 | General investment business |
| Shenzhen Yiba Electronics Co., Ltd. | 2011.11.2 | Building 1, No. 21-1, Second Industrial Zone, Tuyang Community, Sankui Chung Street, Dapeng New District, Shenzhen City, Guangdong Province, China | HKD 5,000,000 | Manufacturing and sales of professional audio products |

(III) Shareholders presumed to have control and affiliation with the same information

Not applicable.

(IV) Industries covered by the overall business of affiliated companies

The industries covered by the business of the overall affiliates include:

- (1) Main business: Design, production and sales of professional audio products.
- (2) General investment business.

For the details of the main business or production items of each affiliated enterprise, please refer to the list of basic information of each affiliated enterprise on Exhibit 2.

(V) Information on directors, supervisors and presidents of affiliated companies

| Company name | Job Title | Name or Representative | Number of shares held | |
|-------------------------------------|--------------------|--|--|--------------------|
| | | | Number of shares/Capital contribution amount | Shareholding ratio |
| Phonic Group, Ltd. (BVI) | Director | Representative of Phonic Corporation: Kao Wei-Hung | 270,912 shares | 100% |
| Shenzhen Yiba Electronics Co., Ltd. | Responsible person | Phonic Group, Ltd. (BVI) Representative: Wang Min-Lieh | HKD \$5,000,000 | 100% |

(VI) Overview of the operations of each affiliate

Unit: NTD thousands

| Company name | Phonic Group, Ltd. (BVI) | Shenzhen Yiba Electronics Co., Ltd. |
|-----------------------------------|--------------------------|-------------------------------------|
| Capitalization | 16,373 | 19,419 |
| Total assets | 49,461 | 49,420 |
| Total liabilities | 14,696 | 96,775 |
| Net worth | 34,765 | (47,355) |
| Operating revenue | 127,335 | 127,335 |
| Operating profit (loss) | 21,091 | 21,190 |
| Current profit (loss) (after tax) | 20,864 | 20,961 |
| EPS (NTD) (after tax) | 77.01 | - |

II. Private placement of securities in the previous period to the day this report was printed

In order to enrich the working capital and reinvestment and in response to other long-term operation and development capital needs, upon evaluation on the capital market status, fundraising speed and timeliness, the Company's proposal for private placement of no more than 10,000,000 ordinary shares was passed by the shareholders' meeting on June 27, 2023. After considering the overall business strategy, the Board of Directors of the Company has resolved on March 14, 2024 not to continue the private placement within the remaining period.

III. Holding or disposal of the Company's shares by subsidiaries in the previous period to the day this report was printed: Not applicable.

IV. Other supplementary information: none.

Nine. Any of the situations listed in Article 36, Paragraph 3, Subparagraph 2 of the Securities and Exchange Act, which might materially affect shareholders' equity or the price of the Company's securities, has occurred during the most recent year or during the current year up to the date of publication of the annual report: Not applicable.

Appendix I: Audit Committee's Review Report on the Financial Report of the Most Recent Year

Phonic Corporation

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2023 business report, consolidated financial statements, parent company only financial statements and earnings distribution table. Among them, the 2023 consolidated financial statements and parent company only financial statements have been audited by Wang Chia-Hsiang, CPA and Cho Ching-Chuan, CPA of Crowe (TW) CPAs, who also issued the audit report accordingly.

The Audit Committee has reviewed said report and statements and concluded that there is no discrepancy and, therefore, hereby submitted the report prepared in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act for review.

Sincerely,

2024 Annual General Meeting of Phonic Corporation

Audit Committee Convener
Chiu Li-Mei Independent Director

March 14, 2024

Salute

Appendix II: Financial Report for the Most Recent Year, including the Independent Auditor's Report, Two-Year Reconciled Balance Sheet, Comprehensive Income Statement, Statement of Changes in Equity, Cash Flow Statement and Notes or Tables

Representation Letter

The entities that are required to be included in the combined financial statements of Phonic Co., Ltd. as of and for the year ended December 31, 2023, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No.10 "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Phonic Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

PHONIC CO., LTD.

Jing-Wen, Zou
Chairman

March 14, 2023

Independent Auditors' Report

To the Board of Directors of Phonic Co., Ltd.

Opinion

We have audited the consolidated financial statements of Phonic Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, interpretations, as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2023 are stated as follows:

Revenue recognition

Description of key audit matter:

Revenue is recognized when the control over a product has been transferred to the customer as specified in each individual contract with customers. The Group recognizes revenue depending on the various sales terms in each individual contract with customers to ensure the performance obligation has been satisfied by transferring control over a product to a customer. Due to the complexity of the product ricks, rewards and ownership transferred, we considered revenue recognition as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and testing the Group's controls surrounding revenue recognition; assessing whether appropriate revenue recognition policies are applied through comparison with accounting standards and understanding the Group's main revenue types, its related sales agreements, and sales terms; on a sample basis, inspecting contracts with customers or customer's orders and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately; performing a test of details of sales revenue and understanding the rationale for any identified significant sales fluctuations and any significant reversals of revenue through sales discounts and sales returns which incurred within a certain period before or after the balance sheet date; and assessing the adequacy of the Group's disclosures of its revenue recognition policy and other related disclosures.

Investments accounted for using the equity method

Description of key audit matter:

The carrying amount of investments accounted for using the equity method of the Group was \$144,281 thousands, which represented 38% of the total assets in the consolidated balance sheet as of December 31, 2023. Accordingly, investment income or loss and other comprehensive income or loss recognized inappropriately might have significant impact to the consolidated financial statements.

How the matter was addressed in our audit:

We understood and tested the Group's internal controls surrounding the accounting policies for investments accounted for using the equity method. We recalculated the carrying amount of investments accounted for using the equity method, share of profit or loss, and other comprehensive income or loss of those investments based on financial statements of the investee which had been audited.

Other Matters

We did not audit the financial statements of certain companies in which the Group has investments accounted for using the equity method. Those financial statements were audited by other independent accountants, whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the parent company only financial statements, relative to these investments accounted for using the equity method was based solely on the reports of other independent accountants. As of December 31, 2023, the investment accounted for using the equity method amounted to \$144,281 thousands, constituting 38% of total assets. The comprehensive income recognized in financial statements audited by other accountants in 2023 amounted to \$763 thousands, constituting 3% of total comprehensive income.

Phonic Co., Ltd. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2023 and 2022, on which we have issued an unqualified opinion with an other matter paragraph.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatements of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2023 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chia-Hsiang Wang and Ching-Chan Cho.

Crowe (TW) CPAs

Crowe (TW) CPAs
March 14, 2024

Notice to Readers

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

The independent auditors' audit report and the consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.

Phonic Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | Notes | 2023 | | 2022 | |
|--|-------------------------------|------------|------|------------|------|
| | | Amount | % | Amount | % |
| Net revenue | 6(14) and 14 | \$ 170,925 | 100 | \$ 97,607 | 100 |
| Cost of revenue | 6(4), 6(7), 6(8), 6(17) and 7 | (109,698) | (64) | (72,620) | (74) |
| Gross profit | | 61,227 | 36 | 24,987 | 26 |
| Operating expenses | 6(7), 6(8), 6(17) and 7 | | | | |
| Marketing | | (2,705) | (2) | (2,806) | (3) |
| General and administrative | | (30,757) | (18) | (26,381) | (27) |
| Research and development | | (1,662) | (1) | (2,387) | (3) |
| Expected credit losses | 6(3) | - | - | (4) | - |
| Total operating expenses | | (35,124) | (21) | (31,578) | (33) |
| Operating profit (losses) | | 26,103 | 15 | (6,591) | (7) |
| Non-operating income and expenses | | | | | |
| Interest income | | 2,747 | 2 | 719 | 1 |
| Other income | 6(15) | 377 | - | 2,518 | 3 |
| Other gains and losses | 6(16) | (530) | - | (255) | - |
| Finance costs | | (586) | - | (565) | (1) |
| Share of profit of subsidiaries and associates accounted for using equity method | 6(5) | 763 | - | - | - |
| Total non-operating income and expenses | | 2,771 | 2 | 2,417 | 3 |
| Profit (loss) before income tax from continuing operations | | 28,874 | 17 | (4,174) | (4) |
| Income tax expense | 6(18) | (5,395) | (3) | (2,763) | (3) |
| Net profit (loss) for the year | | 23,479 | 14 | (6,937) | (7) |
| Other comprehensive income (loss) | 6(18) and 6(19) | | | | |
| Items that will be reclassified subsequently to profit or loss | | | | | |
| Exchange differences arising from translation of foreign operations | | (410) | - | 146 | - |
| Income tax related to items that will be reclassified to profit or loss | | 82 | - | (29) | - |
| Other comprehensive (loss) income for the year, net of income tax | | (328) | - | 117 | - |
| Total comprehensive income (loss) for the year | | \$ 23,151 | 14 | \$ (6,820) | (7) |
| Net income (loss) attributable to: | | | | | |
| Shareholders of the parent | | \$ 23,479 | 14 | \$ (6,937) | (7) |
| Noncontrolling interests | | \$ - | - | \$ - | - |
| Total comprehensive income (loss) attributable to: | | | | | |
| Shareholders of the parent | | \$ 23,151 | 14 | \$ (6,820) | (7) |
| Noncontrolling interests | | \$ - | - | \$ - | - |
| Earnings (loss) per share | 6(20) | | | | |
| Basic earnings (loss) per share | | \$ 1.17 | | \$ (0.35) | |
| Diluted earnings (loss) per share | | \$ 1.17 | | \$ (0.35) | |

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

Phonic Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | Equity attributable to the shareholders of the Company | | | | | | Total Equity |
|--|--|-----------------|---------------|-----------------|----------------------------------|---|--------------|
| | Common Stock | Capital Surplus | Legal reserve | Special Reserve | Unappropriated Retained Earnings | Exchange Differences arising from Translation of Foreign Operations | |
| Balance at January 1, 2022 | \$ 200,000 | \$ 18,200 | \$ - | \$ 16,942 | \$ 30,824 | \$ (13,935) | \$ 252,031 |
| Appropriation of retained earnings : | | | | | | | |
| Legal reserve | - | - | 3,082 | - | (3,082) | - | - |
| Net loss for 2022 | - | - | - | - | (6,937) | - | (6,937) |
| Other comprehensive loss for 2022 | - | - | - | - | - | 117 | 117 |
| Total comprehensive income (loss) for 2022 | - | - | - | - | (6,937) | 117 | (6,820) |
| Exercising the right of claim for disgorgement | | 10 | | | | | 10 |
| Balance at December 31, 2022 | 200,000 | 18,210 | 3,082 | 16,942 | 20,805 | (13,818) | 245,221 |
| Net profit for 2023 | - | - | - | - | 23,479 | - | 23,479 |
| Other comprehensive income for 2023 | - | - | - | - | - | (328) | (328) |
| Total comprehensive income (loss) for 2023 | - | - | - | - | 23,479 | (328) | 23,151 |
| Balance at December 31, 2023 | \$ 200,000 | \$ 18,210 | \$ 3,082 | \$ 16,942 | \$ 44,284 | \$ (14,146) | \$ 268,372 |

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

Phonic Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | <u>2023</u> | <u>2022</u> |
|--|------------------|---------------|
| <u>Cash flows generated from (used in) operating activities:</u> | | |
| Profit (loss) before tax | \$ 28,874 | \$ (4,174) |
| Adjustments for: | | |
| Depreciation expense | 2,811 | 2,947 |
| Expected credit loss | - | 4 |
| Interest income | (2,747) | (719) |
| Interest expense | 586 | 565 |
| Loss on disposal of property, plant and equipment | - | 66 |
| Prepayments for equipment reclassified as expense | - | 239 |
| Share of profit of subsidiaries and associates accounted for using equity method | (763) | - |
| | <u>(113)</u> | <u>3,102</u> |
| Changes in operating assets and liabilities: | | |
| Notes receivable, net | (42) | (378) |
| Accounts receivable, net | (5,514) | 5,076 |
| Other receivables | (481) | 844 |
| Inventories | 7,330 | (11,003) |
| Prepayments | (4,736) | (1,066) |
| Contract liabilities | (19,684) | 25,963 |
| Notes payable | (49) | (28) |
| Accounts payable | 671 | 3,908 |
| Accounts payable to related parties | 2,441 | - |
| Other payables | 5,612 | (873) |
| Other payables to related parties | 60 | - |
| Other current liabilities | (7) | 14 |
| Cash flows generated from operations | <u>14,362</u> | <u>21,385</u> |
| Interest received | 2,718 | 719 |
| Interest paid | (562) | (565) |
| Income tax paid | (1,855) | (52) |
| Net cash flows generated from operating activities | <u>14,663</u> | <u>21,487</u> |
| <u>Cash flows used in investing activities:</u> | | |
| Acquisition of investments accounted for using equity method | (105,850) | - |
| Acquisition of property, plant and equipment | (167) | (437) |
| Proceeds from disposal of property, plant and equipment | - | 64 |
| Decrease in refundable deposits | - | 21 |
| Net cash flows used in investing activities | <u>(106,017)</u> | <u>(352)</u> |

(Continued)

Phonic Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | 2023 | 2022 |
|---|-------------------|-------------------|
| <u>Cash flows from financing activities:</u> | | |
| Decrease in long-term borrowings | \$ (1,640) | \$ (1,640) |
| Payment of lease liabilities | (2,204) | (2,161) |
| Exercising the right of claim for disgorgement | - | 10 |
| Net cash flows used in financing activities | (3,844) | (3,791) |
| Effect of exchange rate changes on cash and cash equivalents | (382) | 97 |
| Net (decrease) increase in cash and cash equivalents | (95,580) | 17,441 |
| Cash and cash equivalents, beginning of year | 259,768 | 242,327 |
| Cash and cash equivalents, end of year | \$ 164,188 | \$ 259,768 |

Phonic Co., Ltd. And Subsidiaries
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. GENERAL INFORMATION

Phonic Co., Ltd. (the “Company”) was incorporated in November, 1973. The Company was formerly known as Phonic Enterprise Co., Ltd, and reorganized in March, 1988. The Company primarily engages in manufacturing and sales of professional audio products.

The Company’s shares have been listed on the Market of the Taipei Exchange (TPEX) since October 21, 2003. The address of its registered office and principal places of business is 6F.-1, No. 36, Aly. 38, Ln. 358, Ruiguang Rd., Neihu Dist., Taipei City, Taiwan.

The principal operating activities of the Company and its subsidiaries (collectively the “Group”) are described in Note 4(3) (b).

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

2. THE AUTHORIZATION OF THE FININCIAL STATEMENT

The consolidated financial statements were approved and authorized for issue by the Board of Directors on March 14, 2024.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

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

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

| New IFRSs | Effective Date Announced by IASB(Note A) |
|---|---|
| Amendments to IAS 1 “Disclosures of Accounting Policies” | January 1, 2023 (Note A) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note B) |
| Amendments to IAS 12 “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction” | January 1, 2023 (Note C) |
| Amendments to IAS 12 “International Tax Reform — Pillar Two Model Rules” | (Note D) |

Note A: An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2023.

Note B: These amendments apply to changes in accounting estimates and changes in accounting policies that occur during annual reporting periods beginning on or after January 1, 2023.

Note C: An entity shall apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred taxes for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Note D: As a temporary exception under IAS 12, an entity shall not recognize deferred income tax assets and liabilities associated with Pillar 2 income tax, nor shall it disclose the related information. However, the entity shall disclose in its financial report that it has already applied this exception. An entity shall apply this part of the amendment retrospectively in accordance with IAS 8 since the date that the amendments were issued (i.e. May 23, 2023). An entity shall apply the remaining disclosure requirements for the annual reporting periods beginning on or after January 1, 2023 and need not to disclose such information in its interim reports with a reporting date ending before or on December 31, 2023.

Based on the Group's assessment, the above standards and interpretations have no significant effect on the Group's financial position and financial performance.

(2) Impact of the IFRSs that have been endorsed by the FSC but not yet in effect

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

| New IFRSs | Effective Date Announced by IASB |
|---|---|
| Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback" | January 1, 2024 (Note A) |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2024 |
| Amendments to IAS 1 "Non-current Liabilities with Covenants" | January 1, 2024 |
| Amendments to IAS 7 and IFRS 7 "Supplier finance arrangements " | January 1, 2024 (Note B) |

Note A: The seller-lessee shall apply the amendments retrospectively in accordance with IAS 8 for the sale and leaseback transactions made after the initial application of IFRS 16.

Note B: The amendment provides certain transitional reliefs. When initially applying the amendment, entities are not required to disclose comparative information and interim period information, as well as opening information required by paragraph 44H(b)(ii)-(iii).

Based on the Group's assessment, the application of the New IFRSs above will not have any significant impact on the Group's financial position and financial performance.

(3) The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC.

New revised or amended standards and interpretations issued by the IASB but not yet endorsed by the FSC are listed below:

| New IFRSs | Effective Date Announced by IASB (Note A) |
|--|--|
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture” | To be determined by IASB |
| IFRS 17 “Insurance Contracts” | January 1, 2023 |
| Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9—Comparative Information” | January 1, 2023 |
| Amendments to IAS 21 "Lack of Exchangeability" | January 1, 2025 |

As of the date, the consolidated financial statements were authorized for issue, the Group continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Group completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC (collectively as “Taiwan-IFRSs”)

(2) Basis of Preparation the Consolidated Financial Statement

(a) The consolidated financial statements have been prepared on the historical cost basis.

(b) The preparation of financial statements in compliance with IFRSs endorsed by FSC requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a high degree of judgment 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) The basis for the preparation of consolidated financial statements

(i) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are the entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(ii) All intra-company transactions, balances, and unrealized gains or losses are eliminated in full on consolidation. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

- (iii) Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (iv) Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control of the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in subsidiaries. Any difference between the amount of the non-controlling interests adjusted and the fair value of the consideration paid or received is recognized directly in equity.
- (v) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would have been reclassified to profit or loss when the related assets or liabilities are disposed of.

(b) The subsidiaries included in the consolidated financial statements were as follows:

| <u>Name of Investor</u> | <u>Name of Investee</u> | <u>Main Business</u> | <u>Percentage of Ownership</u> | |
|-------------------------|------------------------------------|--|--------------------------------|-------------------|
| | | | <u>2023.12.31</u> | <u>2022.12.31</u> |
| Phonic Co., Ltd. | Phonic Group, Ltd. | Investment activities | 100.00% | 100.00% |
| Phonic Group, Ltd. | Shenzhen Yiba Electronic Co., Ltd. | Manufacturing and selling of professional audio products | 100.00% | 100.00% |

Phonic Group, Ltd.'s main business is investing in Shenzhen Yiba Electronic Co., Ltd. in Shenzhen, China. Shenzhen Yiba Electronic Co., Ltd. is the subsidiary of Phonic, indirectly invested through Phonic Group, Ltd. (located in the third region), and it is mainly engaged in manufacturing of professional audio products and selling to Phonic Co., Ltd.

- (i) The financial statements of the subsidiary were consolidated based on audited financial statements.
- (ii) Increase/decrease of subsidiaries: None.

(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 hold the securities issued by the parent company: None

(g) Subsidiaries that have material non-controlling interests to the Company: None

(4) Foreign Currencies

(a) Foreign Currency Transactions

Transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in foreign currencies are not retranslated. Except for exchange differences arising from the retranslation of financial assets at FVTOCI and financial liabilities designated as certain hedging instruments, such as foreign operations or cash flow in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Other exchange differences are recognized in profit or loss.

(b) Translation of Foreign Operation

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

On the disposal of a foreign operation involving the loss of control, joint venture or significant influence over the foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to the non-controlling interests of the subsidiary and not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

(5) Classification of Current and Noncurrent Assets and Liabilities

(a) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(i) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(ii) Assets held mainly for trading purposes;

(iii) Assets that are expected to be realized within twelve months from the balance sheet date;
or

- (iv) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- (b) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (i) Liabilities that are expected to be paid off within the normal operating cycle;
 - (ii) Liabilities arising mainly from trading activities;
 - (iii) Liabilities that are to be paid off within twelve months from the balance sheet date, even if an agreement to refinance, or to reschedule payments on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
 - (iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all liabilities that do not meet the above conditions as non-current.

(6) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalent.

(7) Financial Instruments

Financial assets and financial liabilities are recognized in balance sheets when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

(a) Financial Assets

(i) Measurement Category

The Group adopts trade-date accounting to recognize and derecognize financial assets.

Financial assets are classified as financial assets at amortized cost.

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- A. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets measured at amortized cost are determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- A. For the purchased or originated credit-impaired financial assets, interest revenue is calculated at the credit-adjusted effective interest rate.
- B. For the financial assets that are not purchased or originated credit-impaired financial assets but subsequently became credit-impaired financial assets, interest revenue is calculated at the effective interest rate.

(ii) Impairment of Financial Assets

The Group recognizes a loss allowance for expected credit losses (“ECL”) on financial assets at amortized cost (including accounts receivable).

The loss allowance for accounts receivable is measured at an amount equal to lifetime ECL. For other financial assets, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to 12-month ECL. If there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to lifetime ECL.

ECL reflects the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. The Group recognizes an impairment loss for aforementioned financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(iii) Derecognition of Financial Assets

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

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Group has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The difference between the book value and the price of financial assets at amortized cost will be recognized in profit or loss on disposal of the financial assets.

(b) Financial Liabilities

(i) Subsequent Measurement

Financial liabilities measured at amortized cost are measured using the effective interest rate method after initial recognition, except for the following situations :

- A. Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or is designated as at fair value through profit or loss.
 - i. A hybrid (combination) contract containing embedded derivatives, and the main contract is not an asset within the scope of IFRS9; or
 - ii. To reduce a measurement or recognition inconsistency that would otherwise arise; or
 - iii. A tool for managing and evaluating the performance on fair value basis in accordance with a written risk management policy.
- B. Financial liabilities at FVTPL recognized by fair value on initial recognition, and the related costs are recognized in profit or loss. And the subsequent changes at fair value are recognized in profit or loss.
- C. Financial liabilities that are designated as financial liabilities measured at FVTPL, for which amount of changes in fair value resulting from a change in credit risk is recognized as other comprehensive income and will not be reclassified subsequently to profit or loss. The amount of the remaining fair value changes in the liability is reported in profit and loss. However, if the aforementioned accounting treatment triggers or exacerbates the improper accounting ratio, the full profits or losses of the liability are reported in the profit or loss.

(ii) Derecognition of Financial Liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(8) Inventories

The item by item approach is used in applying the lower of cost or net realizable value. Under a perpetual system, inventory cost is determined using the weighted-average method. The finished goods and work-in-process consist of raw materials, direct labor, other direct costs and related manufacturing expenses (allocated by normal capacity) excluding the borrowing cost. Inventory write-downs are made by item, and net realizable value is the estimated selling price of inventories less all estimated costs of completion and applicable variable selling expenses.

(9) Investments in associates

- (a) Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly, 20 percent or more of the voting power of the investee. Investments in associates are initially recognized at cost and are accounted for using the equity method.
- (b) The Group's share of its associate's profit or loss after the date of acquisition is recognized in the Group's profit or loss, and its share of changes in the associate's other comprehensive income is recognized in the Group's other comprehensive income. When the Group's share of losses of its associate equals or exceeds its interest in the associate, including the carrying amount of the investment in the associate determined using the equity method plus the long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognizing its share of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- (c) Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (d) In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for using the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- (e) Upon loss of significant influence over an associate, the Group remeasures any retained investment in the former associate at its fair value. Any difference between the fair value and carrying amount is recognized in profit or loss.
- (f) When the Group disposes its investment in an associate, if it loses significant influence over the associate, the Group shall account for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the associate had directly disposed of the related assets or liabilities. If it still retains significant influence over the associate, then the Group shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

- (g) When the Group disposes its investment in an associate, if it loses significant influence over the associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over the associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(10) Property, Plant and Equipment

- (a) Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- (b) Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance is recognized in profit or loss as incurred.
- (c) Land is not depreciated. Other property, plant and equipment apply the cost model and are depreciated using the straight-line method to allocate their costs over their estimated useful lives. The assets' residual values, useful lives, and depreciation methods are reviewed, and adjusted if appropriate, at each reporting year end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

Buildings: 5~36 years
Machinery and equipment: 1~8 years
Office equipment: 1~5 years
Other equipment: 5 years

- (d) An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(11) Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. For a contract that contains a lease component and non-lease component, the Group allocates the consideration in the contract to each lease component on the basis of the related stand-alone price and accounts for each component separately.

(a) The Group as lessee

Except for short-term leases and leases of low-value asset where lease payments are recognized as expenses on a straight-line basis over the lease terms, the Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease.

Right-of-use assets

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, less any lease incentives received, and plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are presented as a separate line item in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Group by the end of the lease terms or if the costs of right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments that depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the assessment of an option to purchase an underlying asset, a change in the amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by (a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that reduce the scope of the lease. The lessee shall recognize in profit or loss any gain or loss relating to the partial or full termination of the lease and (b) make a corresponding adjustment to the right-of-use asset for all other lease modifications.

Lease liabilities are presented as a separate line item in the balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

(b) The Group as lessor

A lease is classified as a finance lease if it transfers all the risks and rewards associated with ownership of the underlying asset; otherwise, it is classified as an operating lease.

(12) Impairment of Non-Financial Assets

The Group assesses the recoverable amounts of those assets where there is an indication that they are impaired at the end of reporting period. Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When the indication of impairment loss recognized in prior years for an asset no longer exists, the impairment loss is reversed to the extent of the loss previously recognized in profit or loss.

(13) Employee Benefits

(a) Short-term employee benefits

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

(b) Pensions

Obligations for contributions to defined pension plans are recognized as an expense in profit or loss in the periods during which services are rendered by employees.

(c) Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities. Any difference between the amount accrued and the amount actually distributed is accounted for as a change in accounting estimate.

(d) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Company's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Company recognizes expenses when it can no longer withdraw an offer of termination benefits or when it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date are discounted to their present value.

(14) Income Tax

(a) The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

- (b) The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax calculated in accordance with the Income Tax Act of the Republic of China is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders approve to retain earnings.
- (c) Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- (d) Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- (e) Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(15) Revenue Recognition

The Group applies the following steps for revenue recognition:

- (a) Identify the contract;
- (b) Identify the performance obligations;
- (c) Determine the transaction price;
- (d) Allocate the transaction price to performance obligations; and
- (e) Recognize revenue when (or as) a performance obligation is satisfied.

The Group identifies performance obligations in a contract with the customer, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

The transfer of control means the goods or services have been transferred to customers, and there are no unsatisfied obligations that would influence customers to accept the goods or not. Delivery means customers have accepted the goods based on trade terms, the risks of loss have been

transferred to customers, and the Group has objective evidence that it has satisfied all acceptance terms.

The Group recognizes accounts receivable when the Group transfers control of the goods or services to customers and has the right to certain amount of consideration that is unconditional.

For the sale of water purifying equipment from contracts with customers, the Group recognizes revenue on a net basis when performance obligations are satisfied with the consideration that the Group does not bear the primary responsibility for goods provided and does not obtain control over the water purifying equipment prior to the transfer to customers.

(16) Earnings Per Share

The Group reports the basic and diluted earnings per share of the Group's common equity holders. Basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the current reporting period. Diluted earnings per share is computed by taking basic earnings per share into consideration plus additional ordinary shares that would have been outstanding if the dilutive share equivalents had been issued. Net income is also adjusted for interest and other income or expenses derived from any underlying dilutive share equivalents.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised if the revisions affect only that year, or in the year of the revision and future years if the revision affects both current and future years.

In the preparation of the consolidated financial statements, the critical accounting judgments the Group has made and the major sources of estimation and assumption uncertainty are described as follows:

(1) Critical accounting judgments

Revenue recognition

The Group assesses if it controls the specified good or service before that good or service is transferred to a customer to determine whether it is acting as a principal or as an agent in the transaction in accordance with IFRS 15. Where the Group acts as an agent, revenue is recognized on a net basis.

When another party is involved in providing goods or services to a customer, the Group is a principal if the Group obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf.

- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.

Indicators that the Group controls the specified good or service before it is transferred to the customer include, but are not limited to, the following:

- (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service.
- (b) the entity has inventory risk before or after the specified good or service has been transferred to a customer.
- (c) the entity has discretion in establishing the price for the specified good or service.

(2) Critical accounting estimates and assumptions

(a) Revenue recognition

Sales revenue, excluding related estimated sales returns, discounts and other similar allowance, is recognized when the control of goods or services is transferred to the customer and the Group satisfies its performance obligation. The Group estimates sales returns and allowance based on historical experience and other known factors. The Group reassesses the reasonableness of the estimates periodically.

(b) Evaluation of inventories

Inventories are stated at the lower of cost and net realizable value; thus, the Group estimates the net realizable value of inventory for obsolescence and unmarketable items on the balance sheet date due to rapid technology changes and writes down inventories to the net realizable value. Such an evaluation of inventories is mainly based on the demand for the products within a specified period in the future. Therefore, there might be material changes to the evaluation.

(c) Impairment assessment of tangible assets

In the course of impairment assessments, the Group determines, based on how assets are utilized and relevant industrial characteristics, the useful lives of assets and the future cash flows of a specific group of the assets. Changes in economic circumstances or the Group's strategy might result in material impairment of assets in the future.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and Cash Equivalents

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|------------------|-------------------|-------------------|
| Cash on hand | \$ 175 | \$ 68 |
| Check deposits | 3,091 | 1,013 |
| Demand deposits | 120,922 | 234,119 |
| Cash equivalents | <u>40,000</u> | <u>24,568</u> |
| | <u>\$ 164,188</u> | <u>\$ 259,768</u> |

- (a) The Group selects financial institutions with good credit, and also trades with a number of financial institutions to diversify credit risk. As a result, the probability of default is expected to be low.

(b) Cash and cash equivalents were not pledged to others.

(2) Notes Receivable, Net

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------------|-------------------|-------------------|
| Notes receivable | \$ 435 | \$ 393 |
| Less: loss allowance | <u>-</u> | <u>-</u> |
| Notes receivable, net | <u>\$ 435</u> | <u>\$ 393</u> |

The notes receivable were not pledged.

(3) Accounts Receivable, Net

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--------------------------|-------------------|-------------------|
| Gross carrying amount | \$ 8,511 | \$ 2,997 |
| Less: loss allowance | <u>(5)</u> | <u>(5)</u> |
| Accounts receivable, net | <u>\$ 8,506</u> | <u>\$ 2,992</u> |

(a) The average credit period of sales of goods ranges from 30 to 60 days, which is determined by reference to the credit granting policy based on the counterparties industrial characteristics, operation scales and profitability.

(b) The Group has no accounts receivable pledged to others.

(c) The Group measures loss allowance for accounts receivable using the simplified approach under IFRS 9 with lifetime expected credit losses. Analysis of expected credit losses which was measured based on the aforementioned method, was as follows.:

| <u>2023.12.31</u> | | | | |
|--------------------------|--|----------------------------|--|---------------------------|
| | <u>Weighted- average loss rate</u> | <u>Carrying amount</u> | <u>Loss allowance (Lifetime ECL)</u> | <u>Amortized cost</u> |
| Current | 0% | \$ 8,600 | \$ - | \$ 8,600 |
| Past due 1 to 120 days | 0% | 294 | - | 294 |
| Past due 121 to 300 days | 0% | - | - | - |
| Past due over 301 days | 10% | <u>52</u> | <u>(5)</u> | <u>47</u> |
| | | <u>\$ 8,946</u> | <u>\$ (5)</u> | <u>\$ 8,941</u> |
| <u>2022.12.31</u> | | | | |
| | <u>Weighted- average loss rate</u> | <u>Carrying amount</u> | <u>Loss allowance (Lifetime ECL)</u> | <u>Amortized cost</u> |
| Current | 0% | \$ 1,466 | \$ - | \$ 1,466 |
| Past due 1 to 120 days | 0% | 1,871 | - | 1,871 |
| Past due 121 to 300 days | 0% | - | - | - |
| Past due over 301 days | 9% | <u>53</u> | <u>(5)</u> | <u>48</u> |
| | | <u>\$ 3,390</u> | <u>\$ (5)</u> | <u>\$ 3,385</u> |

(d) The movements of the loss allowance for accounts receivable were as follows:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|-------------|-------------|
| Balance at beginning of the year | \$ 5 | \$ 1 |
| Provisions | <u>-</u> | <u>4</u> |
| Balance at end of the year | <u>\$ 5</u> | <u>\$ 5</u> |

The Group did not hold any collaterals or other credit enhancements for these accounts receivable.

(e) Please refer to Note 12 for information on related credit risk management and valuation method.

(4) Inventories and Cost of Goods Sold

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------|-------------------|-------------------|
| Finished goods | \$ 3,815 | \$ 5,111 |
| Work in process | 4,670 | 5,904 |
| Raw materials | <u>3,357</u> | <u>8,157</u> |
| | <u>\$ 11,842</u> | <u>\$ 19,172</u> |

(a) The cost of inventories recognized in profit or loss were as follows:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|-------------------|------------------|
| Cost of goods sold | \$ 112,644 | \$ 74,008 |
| Gain on valuation of inventories | (16,572) | (4,468) |
| Loss on inventory scrapped | 13,290 | 3,062 |
| Others | <u>336</u> | <u>18</u> |
| | <u>\$ 109,698</u> | <u>\$ 72,620</u> |

(i) The net of reversals for inventories increased to net realizable value, which were also included in cost of sales, amounted to \$16,572 and \$4,468 for the years ended December 31, 2023 and 2022, respectively.

(ii) As of December 31, 2023 and 2022, none of the inventories were pledged.

(5) Investments Accounted for Using Equity Method

| <u>Name of Investee</u> | <u>2023.12.31</u> | | <u>2022.12.31</u> | |
|--|------------------------|--------------------------------|------------------------|--------------------------------|
| | <u>Carrying Amount</u> | <u>Percentage of Ownership</u> | <u>Carrying Amount</u> | <u>Percentage of Ownership</u> |
| Associates: | | | | |
| Everpoll Health Plus Water Technology, CO., Ltd. | <u>\$ 144,281</u> | 21.6% | <u>\$ -</u> | - |

(a) Please refer to Note 13 for the nature of business, operating locations, and registration information of the aforementioned associates.

(b) The Company entered into an equity purchase and sale contract on September 20, 2023, agreeing to purchase 1,966 thousand issued shares of Everpoll Health Plus Water Technology,

Co., Ltd. (“Everpoll”), which comprises 21.60% of the total number of issued shares. The total transaction price is \$143,518, with 1,450 thousand shares totaling \$105,850, which was paid in September 2023 and completed transfer of ownership in October 2023. The remaining 516 thousand shares, totaling \$37,668 was paid and completed transfer of stock ownership in January 2024.

(c) The aggregated financial information of Everpoll is as follows:

A. Balance Sheets

| | <u>2023.12.31</u> |
|------------------------------|--------------------------|
| Current assets | \$ 148,134 |
| Non-current assets | 78,276 |
| Current liabilities | (56,718) |
| Non-current liabilities | <u>(43,586)</u> |
| Equity | <u>\$ 126,106</u> |
| Share of associates | 27,244 |
| Goodwill | <u>117,037</u> |
| Carrying amount of associate | <u>\$ 144,281</u> |

B. Statements of Comprehensive Income

| | <u>2023.12.31</u> |
|---|-------------------------|
| Operating income | <u>\$ 185,408</u> |
| Income from continued operations | 21,114 |
| Gains and losses from discontinued operations | <u>-</u> |
| Net Income | \$ 21,114 |
| Other comprehensive income (after tax) | <u>-</u> |
| Total comprehensive Income | <u>\$ 21,114</u> |
| Dividend received from associates | <u>\$ -</u> |

(d) Summary of the Group’s share of associates:

| | <u>2023</u> | <u>2022</u> |
|----------------------------|----------------------|-------------|
| Profit | \$ 763 | \$ - |
| Other Comprehensive Income | <u>-</u> | <u>-</u> |
| Total Comprehensive Income | <u>\$ 763</u> | <u>\$ -</u> |

(e) Investments accounted for using the equity method and the Group’s share of profit or loss and other comprehensive income in these investments were calculated based on audited financial statements.

(6) Property, Plant and Equipment

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--------------------------------|-------------------------|-------------------------|
| Land | \$ 35,011 | \$ 35,011 |
| Buildings | 7,632 | 7,632 |
| Machinery and equipment | 34,444 | 34,965 |
| Office equipment | 4,535 | 4,436 |
| Other equipment | <u>4,720</u> | <u>4,808</u> |
| Total cost | 86,342 | 86,852 |
| Less: accumulated depreciation | <u>(43,001)</u> | <u>(43,008)</u> |
| | <u><u>\$ 43,341</u></u> | <u><u>\$ 43,844</u></u> |

| <u>cost</u> | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Office equipment</u> | <u>Other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|------------------|--------------------------------|-------------------------|------------------------|------------------|
| Balance at January 1, 2023 | \$ 35,011 | \$ 7,632 | \$ 34,965 | \$ 4,436 | \$ 4,808 | \$ 86,852 |
| Additions | - | - | - | 167 | - | 167 |
| Effect of exchange rate Changes | - | - | (521) | (68) | (88) | (677) |
| Balance at December 31, 2023 | <u>\$ 35,011</u> | <u>\$ 7,632</u> | <u>\$ 34,444</u> | <u>\$ 4,535</u> | <u>\$ 4,720</u> | <u>\$ 86,342</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2023 | \$ - | \$ 996 | \$ 33,015 | \$ 4,278 | \$ 4,719 | \$ 43,008 |
| Depreciation | - | 220 | 295 | 92 | 26 | 633 |
| Effect of exchange rate Changes | - | - | (487) | (67) | (86) | (640) |
| Balance at December 31, 2023 | <u>\$ -</u> | <u>\$ 1,216</u> | <u>\$ 32,823</u> | <u>\$ 4,303</u> | <u>\$ 4,659</u> | <u>\$ 43,001</u> |

| <u>cost</u> | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Office equipment</u> | <u>Other equipment</u> | <u>Total</u> |
|---------------------------------|------------------|------------------|--------------------------------|-------------------------|------------------------|------------------|
| Balance at January 1, 2022 | \$ 35,011 | \$ 7,543 | \$ 34,372 | \$ 4,361 | \$ 4,738 | \$ 86,025 |
| Additions | - | 89 | 326 | 22 | - | 437 |
| Disposals | - | - | (143) | - | - | (143) |
| Effect of exchange rate Changes | - | - | 410 | 53 | 70 | 533 |
| Balance at December 31, 2022 | <u>\$ 35,011</u> | <u>\$ 7,632</u> | <u>\$ 34,965</u> | <u>\$ 4,436</u> | <u>\$ 4,808</u> | <u>\$ 86,852</u> |
| <u>Accumulated depreciation</u> | | | | | | |
| Balance at January 1, 2022 | \$ - | \$ 788 | \$ 32,192 | \$ 4,157 | \$ 4,650 | \$ 41,787 |
| Depreciation | - | 208 | 461 | 68 | - | 737 |
| Disposals | - | - | (13) | - | - | (13) |
| Effect of exchange rate Changes | - | - | 375 | 53 | 69 | 497 |
| Balance at December 31, 2022 | <u>\$ -</u> | <u>\$ 996</u> | <u>\$ 33,015</u> | <u>\$ 4,278</u> | <u>\$ 4,719</u> | <u>\$ 43,008</u> |

Certain property, plant and equipment were pledged as collateral, please refer to Note 8.

(7) Lease Agreement

(a) Right-of-use assets

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Carrying Amount</u> |
|----------------------------------|-------------|-------------------------------------|----------------------------|
| Balance at January 1, 2023 | \$ 4,406 | \$ (2,203) | \$ 2,203 |
| Depreciation | - | (2,178) | (2,178) |
| Reduction | (4,325) | 4,325 | - |
| Effect of foreign exchange rates | (81) | 56 | (25) |
| Balance at December 31, 2023 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Carrying Amount</u> |
|----------------------------------|-----------------|-------------------------------------|----------------------------|
| Balance at January 1, 2022 | \$ 10,543 | \$ (5,984) | \$ 4,559 |
| Depreciation | - | (2,210) | (2,210) |
| Reduction | (6,072) | 6,072 | - |
| Effect of foreign exchange rates | (65) | (81) | (146) |
| Balance at December 31, 2022 | <u>\$ 4,406</u> | <u>\$ (2,203)</u> | <u>\$ 2,203</u> |

The Group had no significant sublease and impairment for the right-of-use assets for the years ended December 31, 2023 and 2022.

(b) Lease liabilities

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--|-------------------|-------------------|
| Carrying Amount | | |
| Current | \$ - | \$ 2,245 |
| Non-current | - | - |
| | <u>\$ -</u> | <u>\$ 2,245</u> |
| The range of discount rate for the lease liabilities | - | <u>3.80%</u> |

Please refer to Note 12(2) for information about the maturity of lease liabilities.

(c) Information of other leases

The leasing-related fee information for this period is as follows:

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|---------------------------------|-------------------|-------------------|
| Short term rental fees | \$ <u>1,429</u> | \$ <u>1,365</u> |
| Leases fees of low-value assets | \$ <u>271</u> | \$ <u>288</u> |
| Total cash outflow from leases | <u>\$ 3,904</u> | <u>\$ 3,814</u> |

(Note): It includes the principal payment of lease liabilities in the current period.

(8) Employee Benefits

Defined contribution plans

- (a) Under the defined contribution plan, the Company contributes monthly at a rate of no less than six percent of the employees' monthly salaries and wage to the employees' individual pension fund account at the ROC Bureau of Labor Insurance.
- (b) The pension for employees of foreign subsidiaries shall be contributed on the basis of the defined contribution plan, which is the retirement scheme prescribed by the local government and according to the salaries and wages of local employees. These companies have no further obligations other than annual contributions.
- (c) For the years ended December 31, 2023 and 2022, the Group recognized pension expenses of \$ 1,219 and \$1,189, respectively, in relation to the defined contribution plans.

(9) Long-term Borrowings

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------------|-------------------|-------------------|
| Secured loans | \$ 25,113 | \$ 26,548 |
| Credit loans | <u>3,587</u> | <u>3,792</u> |
| | 28,700 | 30,340 |
| Less: current portion | <u>(1,640)</u> | <u>(1,640)</u> |
| | <u>\$ 27,060</u> | <u>\$ 28,700</u> |
| Interest rate range | <u>1.90%</u> | <u>1.51%</u> |

Please refer to Note 8 for assets pledged as collateral to secure the aforementioned long-term borrowings.

(10) Capital Stock

The Company's authorized common stock consisted of 38,000 thousand shares, with par value of \$10 per share, both amounted to \$380,000 as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the Company's issued common stock consisted of 20,000 thousand shares, with par value of \$10 per share, both amounted to \$200,000.

(11) Capital Surplus

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--|-------------------|-------------------|
| Gain on disposal of assets | \$ 1,360 | \$ 1,360 |
| Donated surplus | 500 | 500 |
| Exercising the right of claim for disgorgement | <u>16,350</u> | <u>16,350</u> |
| | <u>\$ 18,210</u> | <u>\$ 18,210</u> |

Under the Company Act, the capital surplus generated from excess of the issuance price over the par value of capital stock and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as stock dividends or cash dividends. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed a certain percentage of the Company

paid in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient. The capital surplus from investment accounted for using equity method may not be used for any purpose.

(12) Retain earnings and dividend policy

(a) According to the dividend policy of the Company's Article of Incorporation, when allocating the net profits in each fiscal year, the Company shall first utilize earnings to pay taxes, offset losses of previous years, and then set aside the 1) legal capital reserve at 10% of the profits left over 2) special capital reverse in accordance with relevant laws or regulations or as requested by the authorities in charge; and 3) balance left over shall be allocated according to the resolution of the board of directors and the shareholders' meeting.

(b) Dividend policy

The dividend policy is based on the Company's Article of Incorporation, considering the capital planning, and sustainable operation of the Company. The procedure of paying dividends is listed below:

(i) Process: According to the Company Act, at the end of each fiscal year, the Board of Directors should consider the Company's profitability, future operational needs, and report the earning distribution proposal to the stockholders' meeting for approval.

(ii) Distribution: 1) stock dividend; 2) capital surplus to be capitalized; and 3) cash dividend.

(iii) Policy: Cash dividends are limited to over 20% of total dividends distributed.

(c) Legal capital reserve

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

(d) Special capital reserve

(i) Pursuant to existing regulation, the Company is required to set aside additional special capital reverse equivalent to the debit balance of the other components of stockholders' equity. For the subsequent decrease in the deduction amount to stockholders' equity, and special reverse appropriated may be reversed to the extent that the net debit balance reverses.

(ii) In accordance with Ruling No.1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from shareholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deduction from shareholders' equity are reversed in subsequent periods.

(e) The deficit compensation proposal for 2022 and the appropriation of earnings for 2021 were approved by the shareholders in its meetings on June 27, 2023 and June 17, 2022, respectively. The aforementioned appropriation of earnings /deficit compensation proposal for 2022 and 2021 were consistent with the resolutions of the Board of Directors' meeting. The appropriated of earnings proposal for 2023 will be reported to the shareholders' meeting in June 2024.

(f) Information about the resolution of the Board of Directors' and shareholders' meetings regarding the appropriation of earnings is available on the Market Observation Post System website of the TWSE.

(13) Other Equity

| | Exchange difference on translation on foreign operations |
|--|---|
| Balance at January 1, 2023 | \$ (13,818) |
| Exchange difference arising on translation of foreign operations | (410) |
| Income tax effect | <u>82</u> |
| Balance at December 31, 2023 | <u>\$ (14,146)</u> |
| | Exchange difference on translation on foreign operations |
| Balance at January 1, 2022 | \$ (13,935) |
| Exchange difference arising on translation of foreign operations | 146 |
| Income tax effect | <u>(29)</u> |
| Balance at December 31, 2022 | <u>\$ (13,818)</u> |

(14) Net Revenue

| | 2023 | 2022 |
|------------------------------------|--------------------------|-------------------------|
| Sale revenue | \$ 171,023 | \$ 97,637 |
| Less: sales returns and allowances | <u>(98)</u> | <u>(30)</u> |
| | <u>\$ 170,925</u> | <u>\$ 97,607</u> |

(a) Revenue is recognized at the time of the transfer of goods. Please refer to Note 14 for more detailed information about revenues from contracts with customers.

(b) Contract liabilities - current:

| | 2023.12.31 | 2022.12.31 |
|---------------------------|-------------------------|-------------------------|
| Sales and service revenue | <u>\$ 14,187</u> | <u>\$ 33,871</u> |

For the years ended December 31, 2023 and 2022, the Group had recognized revenue from the beginning balance of current contract liabilities amounted to \$33,622 and \$6,110, respectively.

(15) Other Income

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|---------------|-----------------|
| Overdue payables recognized as income | \$ - | \$ 1,223 |
| Refund of pension reserve | - | 928 |
| Others | <u>377</u> | <u>367</u> |
| | <u>\$ 377</u> | <u>\$ 2,518</u> |

(16) Other Gains and Losses

| | <u>2023</u> | <u>2022</u> |
|---|-----------------|-----------------|
| Net foreign exchange gain (loss) | \$ (495) | \$ 298 |
| Loss on disposal of property, plant and equipment | - | (66) |
| Others | <u>(35)</u> | <u>(487)</u> |
| | <u>\$ (530)</u> | <u>\$ (255)</u> |

(17) Employee Benefits, Depreciation and Amortization

| | <u>2023</u> | | |
|----------------------------|--|---|------------------|
| | <u>Recognized in cost of revenue</u> | <u>Recognized in operating expenses</u> | <u>Total</u> |
| Employee benefits | | | |
| Salaries and wages | \$ 7,954 | \$ 19,748 | \$ 27,702 |
| Labor and health insurance | 81 | 1,434 | 1,515 |
| Pension | 429 | 790 | 1,219 |
| Other employee benefits | 224 | 779 | 1,003 |
| Depreciation | <u>1,845</u> | <u>966</u> | <u>2,811</u> |
| | <u>\$ 10,533</u> | <u>\$ 23,717</u> | <u>\$ 34,250</u> |
| | | | |
| | <u>2022</u> | | |
| | <u>Recognized in cost of revenue</u> | <u>Recognized in operating expenses</u> | <u>Total</u> |
| Employee benefits | | | |
| Salaries and wages | \$ 8,210 | \$ 16,904 | \$ 25,144 |
| Labor and health insurance | 88 | 1,308 | 1,396 |
| Pension | 463 | 726 | 1,189 |
| Other employee benefits | 318 | 685 | 1,003 |
| Depreciation | <u>1,878</u> | <u>1,069</u> | <u>2,947</u> |
| | <u>\$ 10,957</u> | <u>\$ 20,692</u> | <u>\$ 31,649</u> |

- (a) Phonic shall allocate not lower than 2% and not higher than 1% of annual profits to employees' compensation and directors' and supervisors' remuneration, respectively.

(b) The Company recognized the remuneration to employees and directors as follows:

| | <u>2023</u> | <u>2022</u> |
|-------------------------|---------------|-------------|
| Employee's remuneration | \$ 590 | \$ - |
| Directors' remuneration | <u>140</u> | <u>-</u> |
| | <u>\$ 730</u> | <u>\$ -</u> |

The amounts were calculated by the net profit before tax excluding employees' and directors remuneration of each year multiplied by the percentage of employees' and directors' remuneration as specified in the Company's Article of Incorporation. The amounts were accounted for under operating expenses in 2023 and 2022. The differences between the estimated amounts in the financial statements and the actual amounts approved by the Board of Directors, if any, shall be accounted for as a change in accounting estimate and recognized in the next year.

(c) For 2022 and 2021, employee compensation and director remuneration accrued were consistent with amounts paid. For 2021, it was fully paid in cash. Related information is available at the Market Observation Post System website.

(18) Income Tax

(a) Income tax expense

(i) The components of income tax expense:

| | <u>2023</u> | <u>2022</u> |
|--|-----------------|-----------------|
| Current income tax | | |
| Income tax on current income | \$ 614 | \$ - |
| Adjustment of current income tax for the previous period | (2) | - |
| Additional tax on undistributed earnings | | 1,040 |
| Deferred income tax | | |
| The origination and reversal of temporary differences | <u>4,783</u> | <u>1,723</u> |
| Income tax expense | <u>\$ 5,395</u> | <u>\$ 2,763</u> |

(ii) Income tax expense (benefit) recognized directly in other comprehensive income for the years ended December 31, 2023 and 2022 were follows:

| | <u>2023</u> | <u>2022</u> |
|--|----------------|--------------|
| Exchange difference arising on translation of foreign operations | <u>\$ (82)</u> | <u>\$ 29</u> |

(b) Reconciliation of the expected income tax expense (benefit) calculated based on the ROC Statutory income tax rate compared with the actual income tax expense as reported in the statement of comprehensive income for the years ended December 31, 2023 and 2022, was as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|-------------------|
| Profit (loss) before income tax | \$ <u>28,874</u> | \$ <u>(4,174)</u> |
| Income tax expense (benefit) at the statutory rate | 5,775 | (835) |
| Effects of reconciliation items: | | |
| Non-taxable income | (153) | - |
| Effects from items disallowed by tax regulation | 774 | 491 |
| Additional tax on undistributed earnings | - | 1,040 |
| The impact of different applicable tax rates on the parent and subsidiary companies | 491 | - |
| Adjustment to prior year | 102 | - |
| Change in unrecognized temporary differences and tax losses | <u>(1,594)</u> | <u>2,067</u> |
| Income tax expense | \$ <u>5,395</u> | \$ <u>2,763</u> |

(c) The components of and change in deferred tax and liabilities were as follows:

| | <u>2023</u> | | | |
|--|-----------------------------|-------------------------------------|---|-------------------------------|
| | <u>Balance at January 1</u> | <u>Recognized in profit or loss</u> | <u>Recognized in other comprehensive income</u> | <u>Balance at December 31</u> |
| Deferred income tax assets | | | | |
| Foreign investment losses | \$ 412 | \$ (412) | \$ - | \$ - |
| Allowance for inventory obsolescence | <u>1,102</u> | <u>(1,087)</u> | <u>-</u> | <u>15</u> |
| Total deferred income tax assets | <u>1,514</u> | <u>(1,499)</u> | <u>-</u> | <u>15</u> |
| Deferred income tax liabilities | | | | |
| Foreign investment gains | - | (3,760) | 82 | (3,678) |
| Unrealized exchange gain | <u>(1,220)</u> | <u>476</u> | <u>-</u> | <u>(744)</u> |
| Total deferred income tax liabilities | <u>(1,220)</u> | <u>(3,284)</u> | <u>82</u> | <u>(4,422)</u> |
| | <u>\$ 294</u> | <u>\$ (4,783)</u> | <u>\$ 82</u> | <u>\$ (4,407)</u> |

| | 2022 | | | |
|--|-------------------------|---------------------------------|---|---------------------------|
| | Balance at January 1 | Recognized in profit or loss | Recognized in other comprehensive income | Balance at December 31 |
| Deferred income tax assets | | | | |
| Foreign investment losses | \$ 3,484 | \$ (3,043) | \$ (29) | \$ 412 |
| Allowance for inventory obsolescence | - | 1,102 | - | 1,102 |
| Total deferred income tax assets | <u>3,484</u> | <u>(1,941)</u> | <u>(29)</u> | <u>1,514</u> |
| Deferred income tax liabilities | | | | |
| Unrealized exchange gain | (1,438) | 218 | - | (1,220) |
| Total deferred income tax liabilities | <u>(1,438)</u> | <u>218</u> | <u>-</u> | <u>(1,220)</u> |
| | <u>\$ 2,046</u> | <u>\$ (1,723)</u> | <u>\$ (29)</u> | <u>\$ 294</u> |

(d) Unrecognized deferred tax assets:

| | 2023.12.31 | 2022.12.31 |
|---------------------------|------------------|------------------|
| Unused loss carryforwards | \$ <u>13,321</u> | \$ <u>14,915</u> |

(e) Information of unused loss carryforwards

As of December 31, 2023, the expiration period for abovementioned unrecognized deferred tax assets of unused loss carryforwards were as follows:

| Expiration in year | Unused loss carryforwards | Unused tax credit |
|--------------------|------------------------------|-------------------|
| 2024 | \$ 143 | \$ 29 |
| 2025 | 14,465 | 2,893 |
| 2026 | 13,365 | 2,673 |
| 2027 | 12,577 | 2,515 |
| 2028 | 4,377 | 875 |
| 2030 | 13,034 | 2,607 |
| 2032 | 8,644 | 1,729 |
| | <u>\$ 66,605</u> | <u>\$ 13,321</u> |

(f) The Company's income tax returns have been examined by the Tax Authority through 2021.

(19) Other Comprehensive Income (Loss)

| | 2023 | | |
|--|-----------------|-------------------|-----------------|
| | Before tax | Income tax effect | After tax |
| Items that will be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising from translation of foreign operations | \$ <u>(410)</u> | \$ <u>82</u> | \$ <u>(328)</u> |

| | 2022 | | |
|--|---------------|-------------------|---------------|
| | Before tax | Income tax effect | After tax |
| Items that will be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising from translation of foreign operations | \$ <u>146</u> | \$ <u>(29)</u> | \$ <u>117</u> |

(20) Earnings (loss) Per Share

| | 2023 | 2022 |
|--|------------------|-------------------|
| Basic / Diluted Earnings (loss) per share: | | |
| Earnings (loss) belonging to ordinary shareholders | \$ <u>23,479</u> | \$ <u>(6,937)</u> |
| Weighted average number of shares outstanding (in thousands) | <u>20,000</u> | <u>20,000</u> |
| Basic / Diluted Earnings (loss) per share (Unit: NT\$ Per Share) | \$ <u>1.17</u> | \$ <u>(0.35)</u> |

(21) Cash Flow Information

Non-cash transactions

| | 2023 | 2022 |
|---|-------------------|-------------|
| Acquisitions of investments accounted for using equity method | \$ 143,518 | \$ - |
| Changes in payables to contractors | <u>(37,668)</u> | <u>-</u> |
| Payments for acquisition of investments accounted for using equity method | \$ <u>105,850</u> | \$ <u>-</u> |

7. TRANSACTIONS WITH RELATED PARTIES

(1) Name of the parent company and the ultimate controlling party

The Company's parent company is Kangjian Investment Co., Ltd., which holds 58.18% of ordinary shares of the Company; The Company's ultimate controlling party is Taiwan Powder Technologies Co., Ltd., which directly and indirectly holds 63.70% of ordinary shares of the Company.

(2) Name and relationship of related parties

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|--|--------------------------------------|
| Everpoll Health Plus Water Technology, Co., Ltd. | Associate |
| Members of the Board and the President | Key Management Personnel |

(3) Significant transaction with related parties

(a) Purchases

| <u>Name of related party</u> | <u>2023</u> | <u>2022</u> |
|--|-----------------|-------------|
| Everpoll Health Plus Water Technology, Co., Ltd. | \$ <u>4,890</u> | \$ <u>-</u> |

Since the Group did not purchase the same products from other manufacturers, there are no comparable trading terms.

(b) Payables to related parties

| <u>Item</u> | <u>Name of related party</u> | <u>2023.12.31</u> | <u>2022.12.31</u> |
|------------------|--|-------------------|-------------------|
| Accounts payable | Everpoll Health Plus Water Technology, CO., Ltd. | \$ <u>2,441</u> | \$ <u>-</u> |
| Other payables | Everpoll Health Plus Water Technology, CO., Ltd. | \$ <u>60</u> | \$ <u>-</u> |

(c) Operating expenses

| <u>Item</u> | <u>Name of related party</u> | <u>2023</u> | <u>2022</u> |
|--------------|--|---------------|-------------|
| Rent expense | Everpoll Health Plus Water Technology, CO., Ltd. | \$ <u>171</u> | \$ <u>-</u> |

The Company leased warehouses from the associate. The lease terms were determined in accordance with mutual agreements. The rental expenses were paid to the associate monthly, and the related expenses were classified under cost of revenue.

(4) Compensation of key management personnel

The compensation to directors and other key management personnel for the years ended December 31, 2023 and 2022 were as follows:

| | | |
|---|-----------------|-----------------|
| Salaries and other short-term employee benefits | <u>2023</u> | <u>2022</u> |
| | \$ <u>3,001</u> | \$ <u>2,851</u> |

8. ASSETS PLEDGED AS COLLATERAL

| <u>Pledged assets</u> | <u>Pledged to secure</u> | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------------|--------------------------|-------------------|-------------------|
| Land and buildings | Long-term borrowings | \$ <u>41,268</u> | \$ <u>41,450</u> |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

None.

10. SIGNIFICANT LOSSES FROM DISASTERS

None.

11. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Refer to Note 6 (5).

12. OTHER INFORMATION

(1) Capital risk management

The Group requires an adequate capital structure to enable enhancement of its plant and equipment, and normal operation. Therefore, the Group manages its capital to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, debt service requirements and dividend payments associated with its existing operations over the next 12 months.

(2) Financial Instruments

(a) Financial Risk of financial instrument.

Financial risk management objectives and policies

The Group's risk management objectives are to manage the market risk (including foreign currency risk, interest risk and price risk), credit risk and liquidity risk related to its operating activities. The Group identifies measures and manages the aforementioned risks and mitigates the disadvantaged impact on financial performance. The material treasury activities are reviewed by Audit Committees and/or Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, Corporate Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

Nature and extent of significant financial risks

(i) Market risk

A. Foreign currency risk

i. The Group is exposed to the foreign currency risk due to the transaction of sales, purchase and cash denominated in foreign currency other than the Group's functional currency. These non-functional currencies are USD and RMB.

ii. Foreign currency exposure and sensitivity analysis

| 2023.12.31 | | | | | | |
|-----------------------|--------------------------------------|---------------|-----------------------------------|----------------------|--------------------------|------------------|
| | Foreign Currencies (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) | Sensitivity analysis | | |
| | | | | Extent of variation | Impact on Profit or loss | Impact on Equity |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | \$ 909 | 30.705 | \$ 27,905 | 1% | \$ 279 | \$ |
| RMB: NTD | 7 | 4.327 | 32 | 1% | - | |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| RMB: NTD | \$ (3) | 4.327 | \$ (14) | 1% | \$ - | \$ |
| 2022.12.31 | | | | | | |
| | Foreign Currencies (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) | Sensitivity analysis | | |
| | | | | Extent of variation | Impact on Profit or loss | Impact on Equity |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | \$ 1,517 | 30.71 | \$ 46,588 | 1% | \$ 466 | \$ - |
| RMB: NTD | 30 | 4.408 | 134 | 1% | 1 | - |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| RMB: NTD | \$ (3) | 4.408 | \$ (13) | 1% | \$ - | \$ - |

If New Taiwan dollar strengthened against the relevant currency and all other variables were held constant, there would be an equal and opposite impact on profit or loss and other equity as of December 31, 2023 and 2022.

iii. Since there were varieties of foreign currencies within the Group, the Group disclosed the summarized foreign exchange gain (loss) information of monetary items. The realized and unrealized foreign exchange gain (loss) were \$(495) and \$298 for the years ended December 31, 2023 and 2022, respectively.

iv. The Group believes the unrealized exchange gain (loss) of fluctuation risk on foreign currency monetary item is insignificant.

B. Interest rate risk

The Group's exposure to changes in interest rates is mainly from floating-rate long-term debt obligations. Any changes in interest rates will cause the effective interest rates of long-term borrowings to change and thus cause the future cash flows to fluctuate over time.

Assuming the amount of floating-rate debts at the end of the reporting period had been outstanding for the entire year and all other variables were remained constant, an increase or a decrease in the interest rate by 0.25% would have resulted in a decrease or an increase in the net profit before tax for the years ended December 31, 2023 and 2022 by \$72 and \$76, respectively.

(ii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Group. The Group is exposed to credit risk from operating activities, primarily from account receivables, and from investing activities, primarily from bank deposits, fixed-income investments and other financial instruments. The Group managed credit risk separately for business related and financial related risk.

A. Business related credit risk :

To maintain the quality of account receivable, the Group has established related credit risk management procedures. The risk assessment of individual customer includes evaluating financial position, credit institution report, internal evaluation, historical trading records and economic circumstance which could affect the payment ability of the customer. The Group may choose to strengthen overall risk management including collection in advance or credit insurance to mitigate the credit risk of certain customers.

B. Financial credit risk :

The financial department of the Group regularly monitors and reviews the credit risk of bank deposit and other financial instruments. The Group mitigates its exposure by selecting counterparties (Banks, financial institution, company organization and government authorities) with good credit and investment-grade credit ratings. The credit risk is insignificant.

i. Concentration of credit risk

As of December 31, 2023 and 2022, accounts receivable from the top 10 customers represent 64% and 47% of total accounts receivables of the Group, respectively. To reduce the credit risk of accounts receivable, the Group should continue evaluating customers' financial position and ask customers to offer guarantees if necessary.

ii. Expected credit loss measurement

Notes and Accounts receivable: Simplified approach, please refer to Note 6 (3).

Judgment on whether credit risk is increasing significantly: None.

iii. To hold collaterals and other credit enhancements to hedge the credit risk of its financial assets:

The Group doesn't hold collaterals, offset agreement and other credit enhancements to hedge the credit risk of its financial assets. The maximum credit risk exposure of the aforementioned financial instrument is equal to their carrying amounts recognized in balance sheet.

(iii) Liquidity risk

A. Liquidity risk management

The Group's objective of managing liquidity risk is to maintain sufficient cash and cash equivalents required for operations, highly liquidity securities, and bank financing lines for operations, and to ensure that the Group has sufficient financial flexibility.

B. Maturity analysis of financial liabilities

| 2023.12.31 | | | | | | |
|---|-------------------------------|------------------------|------------------------|-------------------------|-----------------------------------|----------------------------|
| Non-derivative financial liabilities | Less than 6 Months | 6–12 Months | 1–5 Years | Over 5 Years | Contractual Cash flows | Carrying Amount |
| Notes payable | \$ 17 | \$ - | \$ - | \$ - | \$ 17 | \$ 17 |
| Accounts payable | 19,014 | - | - | - | 19,014 | 19,014 |
| Other payables (including related parties) | 48,967 | - | - | - | 48,967 | 48,967 |
| Long-term borrowings (including current portion) | <u>1,089</u> | <u>1,082</u> | <u>8,372</u> | <u>22,951</u> | <u>33,494</u> | <u>28,700</u> |
| | <u>\$ 69,087</u> | <u>\$ 1,082</u> | <u>\$ 8,372</u> | <u>\$ 22,951</u> | <u>\$ 101,492</u> | <u>\$ 96,698</u> |
| 2022.12.31 | | | | | | |
| Non-derivative financial liabilities | Less than 6 Months | 6–12 Months | 1–5 Years | Over 5 Years | Contractual Cash flows | Carrying Amount |
| Notes payable | \$ 66 | \$ - | \$ - | \$ - | \$ 66 | \$ 66 |
| Accounts payable | 15,902 | - | - | - | 15,902 | 15,902 |
| Other payables | 5,603 | - | - | - | 5,603 | 5,603 |
| Long-term borrowings (including current portion) | 1,046 | 1,040 | 8,100 | 24,411 | 34,597 | 30,340 |
| Lease liabilities | <u>1,142</u> | <u>1,142</u> | <u>-</u> | <u>-</u> | <u>2,284</u> | <u>2,245</u> |
| | <u>\$ 23,759</u> | <u>\$ 2,182</u> | <u>\$ 8,100</u> | <u>\$ 24,411</u> | <u>\$ 58,452</u> | <u>\$ 54,156</u> |

The Group neither expects the timing of occurrence of the cash flows estimated through the maturity date analysis to be significantly earlier nor expects the actual cash flow amount to be significantly different.

(b) Categories of financial instruments

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--|-------------------|-------------------|
| <u>Financial assets</u> | | |
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents | \$ 164,188 | \$ 259,768 |
| Notes and accounts receivable | 8,941 | 3,385 |
| Other receivables | 1,433 | 923 |
| Refundable deposits | 397 | 404 |
| | <u>\$ 174,959</u> | <u>\$ 264,480</u> |
| <u>Financial liabilities</u> | | |
| Financial liabilities measured at amortized cost | | |
| Notes and accounts payable (including related parties) | \$ 19,031 | \$ 15,968 |
| Other payable (including related parties) | 48,967 | 5,603 |
| Lease liabilities | - | 2,245 |
| Long-term borrowings (including current portion) | 28,700 | 30,340 |
| | <u>\$ 96,698</u> | <u>\$ 54,156</u> |

(3) Fair value information

- (a) For the fair value of financial instruments that are not measured at fair value, please refer to the Note 12 (3) (b).

Level 1

Fair value measurements of the Level 1 are those derived from quoted prices in active markets for identical financial instruments. An active market is a market in which transactions for identical instrument take place with sufficient frequency and volume to provide public pricing information on an ongoing basis. The Foreign publicly trade debt instruments and the domestic beneficiary certificates invested by the Group were classified as this hierarchy.

Level 2

Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that observable for the instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3

Fair value measurements are those derived from valuation techniques that include inputs for instrument that are not based on observable market data.

(b) Financial instruments that are not measured at fair value

The Group considers the carrying amounts of financial instruments that are not measured at fair value, such as cash and cash equivalents, notes and accounts receivables, other receivables, refundable deposits, notes and accounts payable, other payables and long-term borrowings approximate to their fair values.

(c) Fair value hierarchy information

The Group's financial instruments measured at fair value were under a recurring basis.

(d) Valuation techniques and assumptions used in fair value measurement

(i) If there is an active market for the financial instruments, the fair value of the financial instruments is measured by using the quoted market prices. The quoted market prices announced by the main market place and the prices of government bonds classified as popular securities announced by Taipei Exchange (TPEX) are deemed as fair value foundation of publicly traded equity instruments and debt instruments with an active market.

If there are timely and frequent quoted prices from the exchange market, the broker, the dealer, industry association, price service organization, or the administrative, and the prices represent actual, frequent, and fair trades, the financial instruments are deemed as with an active market. Otherwise, the market is deemed as not active. In general, huge price gap, price gap apparently expanding, and small trading volume were indicators of a not active market.

(ii) The Group considered the credit risk evaluation adjustment for financial instruments and non-financial instruments to reflect the credit risk of the counterparty and the credit quality of the Group.

(iii) There were no transfers between different fair value hierarchies for the years ended December 31, 2023 and 2022, respectively.

13. SEPARATELY DISCLOSED ITEMS

(1) Information about significant transactions:

(a) Financing provided to others: None

(b) Endorsements/guarantees provided: None

(c) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures):
None

(d) Marketable securities acquired and disposed at costs or prices at least \$300 million or 20% of the paid-in capital: Please see Table 1 attached

- (e) Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital: None
 - (f) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital: None
 - (g) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 2 attached
 - (h) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 3 attached
 - (i) Trading in derivative instruments: None
 - (j) The business relationship between the parent and the subsidiaries and significant transactions between them: Please see Table 4 attached.
- (2) Related Information of investees: Please see Table 5 attached.
- (3) Information on investments in Mainland China: Please see Table 6 attached.
- (4) Information of major shareholder (list of all shareholders with ownership 5% or greater showing the names and the number of shares and percentage of ownership held by each shareholder): Please see Table 7 attached.

14. SEGMENT INFORMATION

(1) Operation segment

For the purpose of management, the chief operating decision-maker separates its operations based on categories of products and services. According to IFRS 8 「Operating Segments」, the Group should report the following department:

Trade department: Designing and trading a variety of professional audio products.

Manufacturing department: Primarily engaging in manufacturing professional audio products.

(2) Segment revenue and operation results

The Group's departmental income and operating results were as follows:

| | Trade department | Manufacturing department | Other department | Reconciliation and elimination | Consolidated |
|--------------------------------|-----------------------------|-------------------------------------|-----------------------------|---|---------------------|
| Sales from external customers: | \$ 152,087 | \$ 10,263 | \$ 8,575 | \$ - | \$ 170,925 |
| Sales from segments | - | 117,072 | - | (117,072) | - |
| Total revenue | <u>\$ 152,087</u> | <u>\$ 127,335</u> | <u>\$ 8,575</u> | <u>\$ (117,072)</u> | <u>\$ 170,925</u> |
| Segment loss or profit | <u>\$ 20,973</u> | <u>\$ 21,091</u> | <u>\$ (16,014)</u> | <u>\$ 53</u> | <u>\$ 26,103</u> |
| Segment total assets | <u>\$ 117,166</u> | <u>\$ 49,461</u> | <u>\$ 275,797</u> | <u>\$ (58,634)</u> | <u>\$ 383,790</u> |

| | <u>Trade department</u> | <u>Manufacturing department</u> | <u>Other department</u> | <u>Reconciliation and elimination</u> | <u>Consolidated</u> |
|--------------------------------|-----------------------------|-------------------------------------|-----------------------------|---|---------------------|
| Sales from external customers: | \$ 86,185 | \$ 11,422 | \$ - | \$ - | \$ 97,607 |
| Sales from segments | <u>-</u> | <u>70,864</u> | <u>-</u> | <u>(70,864)</u> | <u>-</u> |
| Total revenue | <u>\$ 86,185</u> | <u>\$ 82,286</u> | <u>\$ -</u> | <u>\$ (70,864)</u> | <u>\$ 97,607</u> |
| Segment loss or profit | <u>\$ (9,059)</u> | <u>\$ 2,468</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (6,591)</u> |
| Segment total assets | <u>\$ 308,721</u> | <u>\$ 113,399</u> | <u>\$ -</u> | <u>\$ (86,546)</u> | <u>\$ 335,574</u> |

(3) Geographic information

Revenue from external customers was as follows:

| | <u>2023</u> | <u>2022</u> |
|-----------|-------------------|------------------|
| America | \$ 21,099 | \$ 37,027 |
| China | 10,263 | 10,375 |
| Hong Kong | 82,075 | 9,463 |
| Turkey | 22,481 | 52 |
| Others | <u>35,007</u> | <u>40,690</u> |
| | <u>\$ 170,925</u> | <u>\$ 97,607</u> |

(4) Major customer information

| | <u>2023</u> | | <u>2022</u> | |
|--------|-------------------|-------------------|------------------|-------------------|
| | <u>Amount</u> | <u>Percentage</u> | <u>Amount</u> | <u>Percentage</u> |
| 1PA102 | \$ 82,075 | 48% | \$ 9,463 | 10% |
| 1PA128 | 22,481 | 13% | 52 | -% |
| 1PU15 | 10,708 | 6% | 21,382 | 22% |
| 3OU10 | 9,214 | 5% | 14,926 | 15% |
| 1PA133 | <u>10,263</u> | <u>6%</u> | <u>10,375</u> | <u>11%</u> |
| | <u>\$ 134,741</u> | <u>78%</u> | <u>\$ 56,198</u> | <u>58%</u> |

Phonic Co., Ltd.

**Marketable securities acquired and disposed at costs or prices at least \$300 million or 20% of the paid-in capital
December 31, 2023**

(Amounts in Thousands of New Taiwan Dollars)

TABLE 1

| Purchaser/ seller | Type and Name of Marketable Securities (Note 1) | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisitions | | Disposals | | | | Ending Balance | | |
|----------------------|---|--|--|------------------------|----------------------|--------|--------------|-----------|-----------|-------|--------------------|-----------------------------------|-------------------|--------|-----------|
| | | | | | Shares | Amount | Shares | Amount | Shares | Price | Carrying Amount | Gains and losses from disposal | Shares | Amount | |
| Phonic Co., Ltd. | Stock. | Investments accounted for using equity method | Filtreck Co., Ltd. and ten other natural persons | Non-related parties | - | \$ | 1,966 | \$143,518 | - | \$ | - | - | - | 1,966 | \$143,518 |

Phonic Co., Ltd. and Subsidiaries

**Purchases from or Sales to Related Parties amounting to at Least NT\$100 Million or 20% of the Paid-in Capital
December 31, 2023**

(Amounts in Thousands of New Taiwan Dollars)

TABLE 2

| 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) |
| Phonic Co., Ltd. | Shenzhen Yiba Electronic Co. Ltd. | Subsidiary | Purchases | \$ 117,072 | 92.53% | Note1 | \$ - | \$ - | \$ (23,826) | 99.8% | - |
| Shenzhen Yiba Electronic Co. Ltd. | Phonic Co., Ltd. | Parent company | Sales | \$ 117,072 | 89.34% | Note1 | \$ - | \$ - | \$ 23,826 | 81.01% | - |

Note 1: All inter-company transactions among Phonic Co., Ltd. and its subsidiaries have eliminated in the consolidated.

Phonic Co., Ltd. and Subsidiaries
Receivables from Related Parties Amounting to at Least \$100 Million or 20% of the Paid-in Capital
December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 3

| Creditor | Counterparty | Relationship with the counterparty | Ending balance | Turnover rate | Overdue receivables | | Amount collected in subsequent of period | Allowance for doubtful accounts |
|--------------------|------------------------------------|------------------------------------|----------------|---------------|---------------------|--------------|--|---------------------------------|
| | | | | | Amount | Action taken | | |
| Phonic Group, Ltd. | Shenzhen Yiba Electronic Co., Ltd. | The subsidiary of the Company | \$ 82,079 | — | \$ — | — | \$ — | — |

Note 1: All inter-company transactions among Phonic Co., Ltd. and its subsidiaries have eliminated in the consolidated financial statements.

Phonic Co., Ltd. and Subsidiaries
Intercompany Relationship and Significant Intercompany Transactions
For the Year Ended December 31, 2023

(Amounts in Thousands of New Taiwan Dollars)

TABLE 4

| Number (Note1) | Company name | Counterparty | Relationship (Note2) | Transaction | | | Percent of consolidated net revenues or total assets (Note3) |
|-------------------|--------------------------------------|--------------------------------------|-------------------------|------------------------|-----------|--|---|
| | | | | General ledger account | Amount | Transaction terms | |
| 1 | Phonic Group, Ltd. | Shenzhen Yiba Electronic Co., Ltd | 3 | Accounts receivable | \$ 82,079 | Periodical settlement offset the mutual obligation | 21.39 % |
| 2 | Shenzhen Yiba Electronic Co., Ltd | Phonic Co., Ltd. | 2 | Accounts receivable | 23,826 | Periodical settlement offset the mutual obligation | 6.21 % |
| 2 | Shenzhen Yiba Electronic Co., Ltd | Phonic Co., Ltd. | 2 | Sales | 117,072 | Periodical settlement offset the mutual obligation | 68.49 % |

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 coded consecutively beginning from "1".
- (3) 0. On behalf of the parent company
- (4) 1. Represent subsidiaries

Note 2: Relationship between transaction parties is classified into the following three categories:

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated asset/liability for transaction of balance sheet items are based on each item's balance at period-end. For profit or loss items, cumulative balances are used as basis.

Phonic Co., Ltd. and Subsidiaries
Information of Investees (Excluding Information on Investment in Mainland China)
For the Year Ended December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 5

| Investor | Investee | Location | Main business activities | Initial investment amount | | Balance as of December 31, 2023 | | | Net Income (Losses) of the Investee | Share of Profits/Losses of Investee | Note |
|------------------|--|----------|----------------------------|---------------------------|-------------------|---------------------------------|-------------------------|----------------|-------------------------------------|-------------------------------------|------|
| | | | | December 31, 2023 | December 31, 2022 | Number of Shares | Percentage of Ownership | Carrying Value | | | |
| Phonic Co., Ltd. | Phonic Group, Ltd. | BVI | Investment | \$ 16,373 | \$ 16,373 | 271 | 100% | \$ 34,766 | \$ 20,864 | | |
| Phonic Co., Ltd | Everpoll Health Plus Water Technology, CO., Ltd. | Taiwan | Selling of Water Purifiers | 143,518 | - | 1,966 | 21.6% | 144,281 | \$ 21,114 | 763 | |

Phonic Co., Ltd. and Subsidiaries
Information on Investment in Mainland China
For the Year Ended December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 6

| Investee in Mainland China | Main business activities | Total Amount of Paid-in Capital | Investment method | Accumulated Outflow of Investment from Taiwan as of January 1, 2023 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2023 | Net Income (Losses) of the Investee Company | Ownership held by the Company (direct or indirect) (%) | Share of Profits/Losses (Note 2) | Carrying Amount as of December 31, 2023 | Accumulated Inward Remittance of Earnings as of December 31, 2022 |
|------------------------------------|--|---------------------------------|-------------------|---|------------------|--------|---|---|--|----------------------------------|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Shenzhen Yiba Electronic Co., Ltd. | Manufacturing and selling of professional audio products | HKD 5,000 (\$19,419) | Note 1 | \$ 19,419 | — | — | \$ 19,419 | \$ 20,961 | 100% | \$ 20,961 | \$ (47,355) | \$ — |

| Accumulated Investment in Mainland China as of December 31, 2023 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| USD 2,785,000 (\$92,045) (Note 3) | USD 2,955,000 (\$97,798) | \$161,023 |

Note 1: Indirectly investment in Mainland China through Company registered in a third region (Phonic Group, Ltd).

Note 2: Investment income recognized in current period is based on the financial reports audited by CPAs of the Taiwan parent company.

Note3: The total amount of investment transferred from Taiwan to Mainland China at the end of this period approved by the Investment Commission including All Yu Electronics Manufacturing Co., Ltd. (located in Ningbo Free Trade Zone, and had been liquidated) and Fung Mega International Trading (Shanghai) Co., Ltd. amounted, USD 2,000 thousand (about NTD \$ 68,104 thousand), and USD 140 thousand (About \$ 4,522), respectively.

The significant transactions with mainland invested companies, directly or indirectly through the third area, and their prices, terms of payment, unrealized gains or losses and other relevant data to facilitate understanding of the impact of Consolidated Financial Statements of mainland investment on the financial statements:

(1) Please refer to Table 3 for significant transactions between the Company and the mainland China investee indirectly invested through the third region for the year ended December 31, 2022.

(2) The unrealized (loss) profit incurred by the Company indirectly invested through the third region of the Republic of China for the year ended December 31, 2022 listed below:

| Company of Sales | The Counterparty | Relationship with the party | Unrealized loss |
|--------------------|------------------|-----------------------------|-----------------|
| Phonic Group, Ltd. | Phonic Co., Ltd | Subsidiary | \$ — |

Phonic Co., Ltd. and Subsidiaries
Information Of Major Shareholders
December 31, 2023

TABLE 7

| Shareholders | Shares | |
|--------------------------------------|--------------------|----------------------|
| | Total shares owned | Ownership Percentage |
| Kangjian Investment Co., Ltd. | 11,636,315 | 58.18% |
| WANG , MIN-LIE | 1,151,832 | 5.75% |
| Taiwan Powder Technologies Co., Ltd. | 1,104,555 | 5.52% |

Note 1: The main shareholder information in this table is calculated by Taiwan Depository & Clearing Corporation, using total number of ordinary shares and preferred shares held by the shareholders who have completed the Company's dematerialized securities registration and delivery (including treasury shares) is more than 5% on the last business day at the end of each quarter. As for the difference between capital stock recorded in the Company's financial report and the number of shares which the Company actually have completed the dematerialized securities registration and delivery, may result from computation basis.

Note 2: In the case of the above information, if the shareholder delivers the shares to the trust, it is disclosed in the individual accounts of the trustee. As for the shareholder's declaration of insider's equity holding more than 10% of the shares in accordance with the Securities and Exchange Act, trustor's shareholding includes their own shareholding plus the shares delivered to the trust and the right to use the trust property, etc. For information on insider's equity declaration, please refer to Public information Observatory.

Appendix III: Parent company only financial statement of the most recent year audited and certified by CPAs (excluding the statement of important accounts)



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www.crowe.tw

Independent Auditors' Report

To the Board of Directors of Phonic Co., Ltd.

Opinion

We have audited the parent company only financial statements of Phonic Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended, in accordance with the Regulation Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the parent company only financial statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2023 are stated as follows:

Revenue recognition

Description of key audit matter:

Revenue is recognized when the control over a product has been transferred to the customer as specified in each individual contract with customers. The Company recognizes revenue depending on the various sales terms in each individual contract with customers to ensure the performance obligation has been satisfied by transferring control over a product to a customer. Due to the complexity of the products ricks, rewards and ownership transferred, we considered revenue recognition as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and testing the Company's controls surrounding revenue recognition; assessing whether appropriate revenue recognition policies are applied through comparison with accounting standards and understanding the Company's main revenue types, its related sales agreements, and sales terms; on a sample basis, inspecting contracts with customers or customer's orders and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately; performing a test of details of sales revenue and understanding the rationale for any identified significant sales fluctuations and any significant reversals of revenue through sales discounts and sales returns which incurred within a certain period before or after the balance sheet date; and assessing the adequacy of the Company's disclosures of its revenue recognition policy and other related disclosures.

Investments accounted for using the equity method

Description of key audit matter:

The carrying amount of investments accounted for using the equity method of the Company was \$179,047 thousands, which represented 45% of the total assets in the balance sheet as of December 31, 2023. Accordingly, investment income or loss and other comprehensive income or loss recognized inappropriately might have significant impact to the financial statements.

How the matter was addressed in our audit:

We understood and tested the Company's internal controls surrounding the accounting policies for investments accounted for using the equity method. We recalculated the carrying amount of investments accounted for using the equity method, share of profit or loss, and other comprehensive income or loss of those investments based on financial statements of the investee which had been audited.

Other Matters

We did not audit the financial statements of certain companies in which the Company has investments accounted for using the equity method. Those financial statements were audited by other independent accountants, whose reports have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included in the parent company only financial statements, relative to these investments accounted for using the equity method was based solely on the reports of other independent accountants. As of December 31, 2023, the investment accounted for using the equity method amounted to \$144,281 thousands, constituting 37% of total assets. The comprehensive income recognized in financial statements audited by other accountants in 2023 amounted to \$763 thousands, constituting 3% of total comprehensive income.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

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

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2023 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chia-Hsiang Wang and Ching-Chan Cho.

Crowe (TW) CPAs

Crowe (TW) CPAs
March 14, 2024

Notice to Readers

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

The independent auditors' audit report and the accompanying parent-company-only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and parent company only financial statements, the Chinese version shall prevail.

Phonic Co., Ltd.
Parent Company Only Balance Sheets
December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| Assets | 2023.12.31 | | 2022.12.31 | | Notes | 2023.12.31 | | 2022.12.31 | |
|---|-------------------|------------|-------------------|------------|----------------|-------------------|------------|-------------------|------------|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | \$ 154,926 | 40 | \$ 256,659 | 79 | 6(1) and 12 | \$ 14,152 | 4 | \$ 33,411 | 11 |
| Notes receivable, net | 435 | - | 393 | - | 12 | 17 | - | 66 | - |
| Accounts receivable, net | 8,459 | 2 | 2,944 | 1 | 6(2) and 12 | 3,127 | 1 | 4,299 | 1 |
| Other receivables | 187 | - | 148 | - | 6(3) and 12 | 26,267 | 7 | 3,456 | 1 |
| Current tax assets | 255 | - | - | - | 12 | 47,693 | 12 | 3,914 | 1 |
| Inventories | 578 | - | 2,751 | 1 | 6(4) | 60 | - | - | - |
| Prepayments | 7,434 | 2 | 2,530 | 1 | | - | - | 988 | - |
| Total current assets | 172,274 | 44 | 265,425 | 82 | | 1,640 | - | 1,640 | 1 |
| Non-current assets | | | | | | | | | |
| Investments accounted for using equity method | 179,047 | 45 | 14,312 | 5 | 6(5) | 93,109 | 24 | 47,892 | 15 |
| Property, plant and equipment | 41,625 | 11 | 41,780 | 13 | 6(6) and 8 | 27,060 | 7 | 28,700 | 9 |
| Deferred tax assets | 15 | - | 1,514 | - | 6(17) | 4,422 | 1 | 1,220 | - |
| Refundable deposits | 2 | - | 2 | - | 12 | 31,482 | 8 | 29,920 | 9 |
| Total non-current assets | 220,689 | 56 | 57,608 | 18 | | 124,591 | 32 | 77,812 | 24 |
| Total Assets | \$ 392,963 | 100 | \$ 323,033 | 100 | | \$ 392,963 | 100 | \$ 323,033 | 100 |
| Liabilities and Equity | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Contract liabilities - current | | | | | 6(13) | | | | |
| Notes payable | | | | | 12 | | | | |
| Accounts payable | | | | | 12 | | | | |
| Accounts payable to related parties | | | | | 7 and 12 | | | | |
| Other payables | | | | | 6(5) and 12 | | | | |
| Other payables to related parties | | | | | 7 and 12 | | | | |
| Current tax liabilities | | | | | | | | | |
| Current portion of long-term borrowings | | | | | 6(8), 8 and 12 | | | | |
| Other current liabilities | | | | | | | | | |
| Total current liabilities | | | | | | 93,109 | 24 | 47,892 | 15 |
| Non-current liabilities | | | | | | | | | |
| Long-term borrowings | | | | | 6(8), 8 and 12 | | | | |
| Deferred tax liabilities | | | | | 6(17) | | | | |
| Total non-current liabilities | | | | | | 27,060 | 7 | 28,700 | 9 |
| Total liabilities | | | | | | 124,591 | 32 | 77,812 | 24 |
| Equity | | | | | | | | | |
| Common stock | | | | | 6(9) | | | | |
| Capital surplus | | | | | 6(10) | | | | |
| Legal reserve | | | | | 6(11) | | | | |
| Special reserve | | | | | 6(11) | | | | |
| Unappropriated retained earnings | | | | | 6(11) | | | | |
| Exchange differences arising from translation of foreign operations | | | | | 6(12) | | | | |
| Total equity | | | | | | (14,146) | (4) | (13,818) | (4) |
| Total Liabilities and Equity | | | | | | 268,372 | 68 | 245,221 | 76 |
| Total Assets | \$ 392,963 | 100 | \$ 323,033 | 100 | | \$ 392,963 | 100 | \$ 323,033 | 100 |

(The accompanying notes are an integral part of the parent company only financial statements)

Phonic Co., Ltd.
Parent Company Only Statements of Comprehensive Income
December 31, 2023 and 2022
(In Thousands of New Taiwan Dollar, Except for Earnings (Loss) Per Share)

| | Notes | 2023 | | 2022 | |
|---|-------------------|------------|------|------------|------|
| | | Amount | % | Amount | % |
| Net revenue | 6(13) | \$ 160,663 | 100 | \$ 86,185 | 100 |
| Cost of revenue | 6(4) and 7 | (126,607) | (79) | (70,740) | (82) |
| Gross profit | | 34,056 | 21 | 15,445 | 18 |
| Operating expenses | 6(7), 6(16) and 7 | | | | |
| Marketing | | (2,362) | (1) | (2,350) | (3) |
| General and administrative | | (25,073) | (16) | (19,763) | (23) |
| Research and development | | (1,662) | (1) | (2,387) | (3) |
| Expected credit losses | 6(3) | - | - | (4) | - |
| Total operating expenses | | (29,097) | (18) | (24,504) | (29) |
| Operating profit (losses) | | 4,959 | 3 | (9,059) | (11) |
| Non-operating income and expenses | | | | | |
| Interest income | | 2,733 | 1 | 711 | 1 |
| Other income | 6(14) | 80 | - | 1,079 | 1 |
| Other gains and losses | 6(15) | (592) | - | 24 | - |
| Finance costs | | (547) | - | (442) | - |
| Share of profit of equity-accounted investees | 6(5) | 21,627 | 14 | 3,513 | 4 |
| Total non-operating income and expenses | | 23,301 | 15 | 4,885 | 6 |
| Profit (loss) before income tax from continuing operations | | 28,260 | 18 | (4,174) | (5) |
| Income tax expense | 6(17) | (4,781) | (3) | (2,763) | (3) |
| Net profit (loss) for the year | | 23,479 | 15 | (6,937) | (8) |
| Other comprehensive income (loss) | 6(17) and 6(18) | | | | |
| Items that will be reclassified subsequently to profit or loss | | | | | |
| Exchange differences arising from translation of foreign operations | | (410) | - | 146 | - |
| Income tax related to items that may be reclassified subsequently to profit or loss | | 82 | - | (29) | - |
| Other comprehensive (loss) income for the year, net of income tax | | (328) | - | 117 | - |
| Total comprehensive income (loss) for the year | | \$ 23,151 | 15 | \$ (6,820) | (8) |
| Earnings (loss) per share | 6(19) | | | | |
| Basic earnings (loss) per share | | \$ 1.17 | | \$ (0.35) | |
| Diluted earnings (loss) per share | | \$ 1.17 | | \$ (0.35) | |

(The accompanying notes are an integral part of the parent company only financial statements)

Phonic Co., Ltd.
Parent Company Only Statements of Changes in Equity
December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | Common Stock | Capital Surplus | Legal reserve | Special Reserve | Unappropriated Retained Earnings | Exchange Differences arising from Translation of Foreign Operations | Total Equity |
|--|--------------|-----------------|---------------|-----------------|----------------------------------|---|--------------|
| Balance at January 1, 2022 | \$ 200,000 | \$ 18,200 | \$ - | \$ 16,942 | \$ 30,824 | \$ (13,935) | \$ 252,031 |
| Legal reserve | - | - | 3,082 | - | (3,082) | - | - |
| Net loss for 2022 | - | - | - | - | (6,937) | - | (6,937) |
| Other comprehensive loss for 2022 | - | - | - | - | - | 117 | 117 |
| Total comprehensive income (loss) for 2022 | - | - | - | - | (6,937) | 117 | (6,820) |
| Exercising the right of claim for disgorgement | - | 10 | - | - | - | - | 10 |
| Balance at December 31, 2022 | 200,000 | 18,210 | 3,082 | 16,942 | 20,805 | (13,818) | 245,221 |
| Net profit for 2023 | - | - | - | - | 23,479 | - | 23,479 |
| Other comprehensive income for 2023 | - | - | - | - | - | (328) | (328) |
| Total comprehensive income (loss) for 2023 | - | - | - | - | 23,479 | (328) | 23,151 |
| Balance at December 31, 2023 | \$ 200,000 | \$ 18,210 | \$ 3,082 | \$ 16,942 | \$ 44,284 | \$ (14,146) | \$ 268,372 |

(The accompanying notes are an integral part of the parent company only financial statements)

Phonic Co., Ltd.
Parent Company Only Statements of Cash Flows
December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | <u>2023</u> | <u>2022</u> |
|---|------------------|----------------|
| <u>Cash flows generated from (used in) operating activities:</u> | | |
| Profit (Loss) before tax | \$ 28,260 | \$ (4,174) |
| Adjustments for: | | |
| Depreciation expense | 306 | 288 |
| Expected credit loss | - | 4 |
| Interest income | (2,733) | (711) |
| Interest expense | 547 | 442 |
| Loss on disposal of property, plant and equipment | - | 66 |
| Share of profits of equity-accounted investees | (21,627) | (3,513) |
| | <u>(23,507)</u> | <u>(3,424)</u> |
| Changes in operating assets and liabilities: | | |
| Notes receivable, net | (42) | (378) |
| Accounts receivable, net | (5,515) | 5,076 |
| Inventories | 2,173 | (2,303) |
| Other receivables | (10) | 1,246 |
| Prepayments | (4,904) | 235 |
| Contract liabilities | (19,259) | 25,689 |
| Notes payable | (49) | (28) |
| Accounts payable | (1,172) | 1,951 |
| Accounts payable to related parties | 22,811 | (3,322) |
| Other payables | 6,087 | (1,359) |
| Other payables to related parties | 60 | - |
| Other current liabilities | 35 | 14 |
| Cash flows generated from operations | <u>4,968</u> | <u>19,223</u> |
| Interest received | 2,704 | 711 |
| Interest paid | (523) | (442) |
| Income tax paid | (1,241) | (52) |
| Net cash flows generated from operating activities | <u>5,908</u> | <u>19,440</u> |
| <u>Cash flows used in investing activities:</u> | | |
| Acquisition of investments accounted for using equity method | (105,850) | - |
| Acquisition of property, plant and equipment | (151) | (232) |
| Proceeds from disposal of property, plant and equipment | - | 64 |
| Decrease in refundable deposits | - | 21 |
| Net cash flows used in investing activities | <u>(106,001)</u> | <u>(147)</u> |

(Continued)

Phonic Co., Ltd.
Parent Company Only Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(In Thousands of New Taiwan Dollars)

| | 2023 | 2022 |
|--|-------------------|-------------------|
| <u>Cash flows from financing activities:</u> | | |
| Decrease in long-term borrowings | \$ (1,640) | \$ (1,640) |
| Exercising the right of claim for disgorgement | - | 10 |
| Net cash flows used in financing activities | (1,640) | (1,630) |
| | | |
| Net (decrease) increase in cash and cash equivalents | (101,733) | 17,663 |
| Cash and cash equivalents, beginning of year | 256,659 | 238,996 |
| Cash and cash equivalents, end of year | \$ 154,926 | \$ 256,659 |

(The accompanying notes are an integral part of the parent company only financial statements)

Phonic Co., Ltd.
Notes to Parent Company Only Financial Statements
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. GENERAL INFORMATION

Phonic Co., Ltd. (the “Company”) was incorporated in November, 1973. The Company was formerly known as Phonic Enterprise Co., Ltd, and reorganized in March, 1988. The Company primarily engages in manufacture and sales of professional audio products.

The Company’s shares have been listed on the Market of the Taipei Exchange (TPEX) since October 21, 2003. The address of its registered office and principal places of business is 6F.-1, No. 36, Aly. 38, Ln. 358, Ruiguang Rd., Neihu Dist, Taipei City, Taiwan.

The parent company only financial statements are presented in the Company’s functional currency, New Taiwan Dollars.

2. THE AUTHORIZATION OF THE FININCIAL STATEMENT

The accompanying parent company only financial statements were approved and authorized for issue by the Board of Directors on March 14, 2024.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

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

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

| New IFRSs | Effective Date Announced by IASB(Note A) |
|---|---|
| Amendments to IAS 1 “Disclosures of Accounting Policies” | January 1, 2023 (Note A) |
| Amendments to IAS 8 “Definition of Accounting Estimates” | January 1, 2023 (Note B) |
| Amendments to IAS 12 “Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction” | January 1, 2023 (Note C) |
| Amendments to IAS 12 “International Tax Reform — Pillar Two Model Rules” | (Note D) |

Note A: An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2023.

Note B: These amendments apply to changes in accounting estimates and changes in accounting policies that occur during annual reporting periods beginning on or after January 1, 2023.

Note C: An entity shall apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred taxes for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

Note D: As a temporary exception under IAS 12, an entity shall not recognize deferred income tax assets and liabilities associated with Pillar 2 income tax, nor shall it disclose the related information. However, the entity shall disclose in its financial report that it has already applied this exception. An entity shall apply this part of the amendment retrospectively in accordance with IAS 8 since the date that the amendments were issued (i.e. May 23, 2023). An entity shall apply the remaining disclosure requirements for the annual reporting periods beginning on or after January 1, 2023 and needs not to disclose such information in its interim reports with a reporting date ending before or on December 31, 2023.

Based on the Company's assessment, the above standards and interpretations have no significant effect on the Company's financial position and financial performance.

(2) Impact of the IFRSs that have been endorsed by the FSC but not yet in effect

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

| New IFRSs | Effective Date Announced by IASB |
|---|---|
| Amendments to IFRS 16 "Lease Liability in a Sale and Leaseback" | January 1, 2024 (Note A) |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" | January 1, 2024 |
| Amendments to IAS 1 "Non-current Liabilities with Covenants" | January 1, 2024 |
| Amendments to IAS 7 and IFRS 7 "Supplier finance arrangements " | January 1, 2024 (Note B) |

Note A: The seller-lessee shall apply the amendments retrospectively in accordance with IAS 8 for the sale and leaseback transactions made after the initial application of IFRS 16.

Note B: The amendment provides certain transitional reliefs. When initially applying the amendment, entities are not required to disclose comparative information and interim period information, as well as opening information required by paragraph 44H(b)(ii)-(iii).

Based on the Company's assessment, the application of the New IFRSs above will not have any significant impact on the Company's financial position and financial performance.

(3) The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

New, revised or amended standards and interpretations issued by the IASB but not yet endorsed by the FSC are listed below:

| New IFRSs | Effective Date Announced by IASB (Note A) |
|--|--|
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture” | To be determined by IASB |
| IFRS 17 “Insurance Contracts” | January 1, 2023 |
| Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9—Comparative Information” | January 1, 2023 |
| Amendments to IAS 21 “Lack of Exchangeability” | January 1, 2025 |

As of the date, the parent company only financial statements were authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Statement of Compliance

The accompanying parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(2) Basis of Preparation for the Parent Company Only Financial Statement

- (a) The parent company only financial statements have been prepared on the historical cost basis.
- (b) The preparation of financial statements in compliance with IFRSs endorsed by FSC requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign Currencies

(a) Foreign Currency Transactions

Transactions in currencies other than the Company’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in foreign currencies are not retranslated. Except for exchange differences arising from the retranslation of financial assets at FVTOCI and financial liabilities designated as certain hedging instrument, such as foreign operations or cash flow in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized

directly in other comprehensive income. Other exchange differences are recognized in profit or loss.

(b) Translation of Foreign Operation

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

(4) Classification of Current and Noncurrent Assets and Liabilities

(a) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (i) Assets arising from operating activities that are expected to be realized or intended to be sold or consumed within the normal operating cycle;
- (ii) Assets held mainly for trading purposes;
- (iii) Assets that are expected to be realized within twelve months from the balance sheet date; or
- (iv) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

(b) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (i) Liabilities that are expected to be paid off within the normal operating cycle;
- (ii) Liabilities arising mainly from trading activities;
- (iii) Liabilities that are to be paid off within twelve months from the balance sheet date, even if an agreement to refinance, or to reschedule payments on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- (iv) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash, which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalent.

(6) Financial Instruments

Financial assets and financial liabilities are recognized in balance sheets when the Company becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

(a) Financial Assets

(i) Measurement Category

The Company adopts trade-date accounting to recognize and derecognize financial assets.

Financial assets are classified as financial assets at amortized cost.

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- A. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- B. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets measured at amortized cost are determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- A. Purchased or originated credit-impaired financial assets, interest revenue is calculated at the credit-adjusted effective interest rate.
- B. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently became credit-impaired financial assets, interest revenue is calculated at the effective interest rate.

(ii) Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses (“ECL”) on financial assets at amortized cost (including accounts receivable).

The loss allowance for accounts receivable is measured at an amount equal to lifetime ECL. For other financial assets, when the credit risk on the financial instrument has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to 12-month ECL. If there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to lifetime ECL.

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

The Company recognizes an impairment loss for aforementioned financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account.

(iii) Derecognition of Financial Assets

The Company derecognizes a financial asset when one of the following conditions is met:

- A. The contractual rights to receive the cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred, and the Company has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The difference between the book value and the price of financial assets at amortized cost will be recognized in profit or loss on disposal of the financial assets.

(b) Financial Liabilities

(i) Subsequent Measurement

Financial liabilities measured at amortized cost are measured using the effective interest rate method after initial recognition, except for the following situations :

- A. Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or designated as at fair value through profit or loss.
 - i. A hybrid contract; or
 - ii. To reduce a measurement or recognition inconsistency that would otherwise arise; or
 - iii. A tool for managing and evaluating the performance on fair value basis in accordance with a written risk management policy.
- B. Financial liabilities at FVTPL recognized at fair value on initial recognition, and the related costs are recognized in profit or loss. Subsequent changes at fair value are recognized in profit or loss.
- C. Financial liabilities that are designated as financial liabilities measured at FVTPL, for which amount of changes in fair value resulting from a change in credit risk is recognized as other comprehensive income and will not be reclassified subsequently to profit or loss. The amount of the remaining fair value changes in the liability is reported in profit and loss. However, if the aforementioned accounting treatment triggers or exacerbates the improper accounting ratio, the full profits or losses of the liability are reported in the profit or loss.

(ii) Derecognition of Financial Liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(7) Inventories

The item by item approach is used in applying the lower of cost or net realizable value. Under a perpetual system, inventory cost is determined using the weighted-average method. The finished goods and work-in-process consist of raw materials, direct labor, other direct costs and related manufacturing expenses (allocated by normal capacity) excluding the borrowing cost. Inventory write-downs are made by item, and net realizable value is the estimated selling price of inventories less all estimated costs of completion and applicable variable selling expenses.

(8) Investments in Subsidiaries

Investments in subsidiaries are accounted for using the equity method. A subsidiary is an entity that is controlled by the Company.

The investees are controlled by the Company are measured under equity method in preparing the parent company only financial statements. The profit or loss, other comprehensive income, and equity in the parent company only financial statements are equal to the profit or loss, other comprehensive income, and equity attributable to the shareholders of the parent in the consolidated financial statement. The Company prepares the consolidated financial statement quarterly, comprising of the company and its subsidiaries.

Changes in the company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiary are accounted for as equity transactions.

(9) Investments in associates

- (a) Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly, 20 percent or more of the voting power of the investee. Investments in associates are initially recognized at cost and are accounted for using the equity method.
- (b) The Company's share of its associate's profit or loss after the date of acquisition is recognized in the Company profit or loss, and its share of changes in the associate's other comprehensive income is recognized in the Company's other comprehensive income. When the Company's share of losses of its associate equals or exceeds its interest in the associate, including the carrying amount of the investment in the associate determined using the equity method plus the long-term interests that, in substance, form part of the Company's net investment in the associate, the Company discontinues recognizing its share of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- (c) Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

- (d) In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for using the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- (e) Upon loss of significant influence over an associate, the Company remeasures any retained investment in the former associate at its fair value. Any difference between the fair value and carrying amount is recognized in profit or loss.
- (f) When the Company disposes its investment in an associate, if it loses significant influence over the associate, the Company shall account for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would have been required if the associate had directly disposed of the related assets or liabilities. If it still retains significant influence over the associate, then the Company shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.
- (g) When the Company disposes its investment in an associate, if it loses significant influence over the associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss. If it still retains significant influence over the associate, then the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(10) Property, Plant and Equipment

- (a) Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- (b) Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance expenses are recognized in profit or loss as incurred.
- (c) Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting year. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

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

Buildings: 5~36 years

Machinery and equipment: 5~8 years

Office equipment: 3 years

- (d) An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(11) Leases

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. For a contract that contains a lease component and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the related stand-alone price and accounts for each component separately.

(a) The Company as lessee

Except for short-term leases and leases of low-value asset where lease payments are recognized as expenses on a straight-line basis over the lease terms, the Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease.

Right-of-use assets

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, less any lease incentives received, and plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are presented as a separate line item in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Company by the end of the lease terms or if the costs of right-of-use assets reflect that the Company will exercise a purchase option, the Company depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments that depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the assessment of an option to purchase an underlying asset, a change in the amounts expected to be payable under a residual value guarantee, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any

remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by (a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in profit or loss any gains or losses relating to the partial or full termination of the lease and (b) make a corresponding adjustment to the right-of-use asset for all other lease modifications. Lease liabilities are presented as a separate line item in the balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

(b) The Company as lessor

A lease is classified as a finance lease if it transfers all the risks and rewards associated with ownership of the underlying asset; otherwise, it is classified as an operating lease.

(12) Impairment of Non-Financial Assets

The Company assesses the recoverable amounts of those assets where there is an indication that they are impaired at the end of reporting period. Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When the indication of impairment loss recognized in prior years for an asset no longer exists, the impairment loss is reversed to the extent of the loss previously recognized in profit or loss.

(13) Employee Benefits

(a) Short-term employee benefits

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

(b) Pensions

Obligations for contributions to defined pension plans are recognized as an expense in profit or loss in the periods during which services are rendered by employees.

(c) Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities. Any difference between the amount accrued and the amount actually distributed is accounted for a change in accounting estimate.

(d) Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Company's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Company recognizes expenses when it can no longer withdraw an offer of termination benefits or when it recognizes related restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date are discounted to their present value.

(14) Income Tax

- (a) The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
- (b) The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax calculated in accordance with Income Tax Act of the Republic of China is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders approve of retained earnings.
- (c) Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to be applied when the related deferred tax asset is realized or the deferred tax liability is settled.
- (d) Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- (e) Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(15) Revenue Recognition

The Company applies the following steps for revenue recognition:

- (a) Identify the contract;
- (b) Identify the performance obligations;
- (c) Determine the transaction price;
- (d) Allocate the transaction price to performance obligations; and
- (e) Recognize revenue when (or as) a performance obligation is satisfied.

The Company identifies performance obligations in a contract with the customer, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

The transfer of control means the goods or services have been transferred to customers, and there are no unsatisfied obligations that would influence customers to accept the goods or not. Delivery means customers have accepted the goods based on trade terms the risks of loss have been transferred to customers, and the Company has objective evidence that it has satisfied all acceptance terms.

The Company recognizes accounts receivable when the Company transfers control of the goods or services to customers and has the right to certain amount of consideration that is unconditional.

For the sale of water purifying equipment from contracts with customers, the Company recognizes revenue on a net basis when performance obligations are satisfied with the consideration that the Company does not bear the primary responsibility for goods provided and does not obtain control over the water purifying equipment prior to the transfer to customers.

(16) Earnings Per Share

The Company reports the basic and diluted earnings per share of the Company's common equity holders. Basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the current reporting period. Diluted earnings per share is computed by taking basic earnings per share into consideration plus additional ordinary shares that would have been outstanding if the dilutive share equivalents had been issued. Net income is also adjusted for interest and other income or expenses derived from any underlying dilutive share equivalents.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised if the revisions affect only that year, or in the year of the revision and future years if the revision affects both current and future years.

In the preparation of the parent company only financial statements, the critical accounting judgments the Company has made and the major sources of estimation and assumption uncertainty are described as follows:

(1) Critical accounting judgements

Revenue recognition

The Company assesses if it controls the specified good or service before that good or service is transferred to a customer to determine whether it is acting as a principal or as an agent in the transaction in accordance with IFRS 15. Where the Company acts as an agent, revenue is recognized on a net basis.

When another party is involved in providing goods or services to a customer, the Company is a principal if the Company obtains control of any one of the following:

- (a) a good or another asset from the other party that it then transfers to the customer.
- (b) a right to a service to be performed by the other party, which gives the Company the ability to direct that party to provide the service to the customer on the Company's behalf.
- (c) a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.

Indicators that the Company controls the specified good or service before it is transferred to the customer include, but are not limited to, the following:

- (a) the entity is primarily responsible for fulfilling the promise to provide the specified good or service.
- (b) the entity has inventory risk before or after the specified good or service has been transferred to a customer.
- (c) the entity has discretion in establishing the price for the specified good or service.

(2) Critical accounting estimates and assumptions

(a) Revenue recognition

Sales revenue, excluding related estimated sales returns, discounts and other similar allowance, is recognized when the control of goods or services is transferred to the customer and the Company satisfies its performance obligation. The Company estimates sales returns and allowance based on historical experience and other known factors. The Company reassesses the reasonableness of the estimates periodically.

(b) Evaluation of inventories

Inventories are stated at the lower of cost and net realizable value; thus, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items on the balance sheet date due to rapid technology changes and writes down inventories to the net realizable value. Such an evaluation of inventories is mainly based on the demand for the products within a specified period in the future. Therefore, there might be material changes to the evaluation.

(c) Impairment assessment of tangible assets

In the course of impairment assessments, the Company determines, based on how assets are utilized and relevant industrial characteristics, the useful lives of assets and the future cash flows of a specific group of the assets. Changes in economic circumstances or the Company's strategy might result in material impairment of assets in the future.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and Cash Equivalents

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|------------------|-------------------|-------------------|
| Cash on hand | \$ 45 | \$ 34 |
| Check deposits | 3,090 | 1,013 |
| Demand deposits | 111,791 | 231,044 |
| Cash equivalents | <u>40,000</u> | <u>24,568</u> |
| | <u>\$ 154,926</u> | <u>\$ 256,659</u> |

(a) The Company selects financial institutions with good credit and also trades with a number of financial institutions to diversify credit risk. As a result, the probability of default is expected to be low.

(b) Cash and cash equivalents were not pledged to others.

(2) Notes Receivable, Net

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------------|-------------------|-------------------|
| Notes receivable | \$ 435 | \$ 393 |
| Less: loss allowance | <u>-</u> | <u>-</u> |
| Notes receivable, net | <u>\$ 435</u> | <u>\$ 393</u> |

The notes receivable was not pledged.

(3) Accounts Receivable, Net

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--------------------------|-------------------|-------------------|
| Gross carrying amount | \$ 8,464 | \$ 2,949 |
| Less: loss allowance | <u>(5)</u> | <u>(5)</u> |
| Accounts receivable, net | <u>\$ 8,459</u> | <u>\$ 2,944</u> |

(a) The average credit period of sales of goods ranges from 30 to 60 days, which is determined by reference to the credit granting policy based on the counterparties industrial characteristics, operation scales, and profitability.

(b) The Company has no accounts receivable pledged to others.

(c) The Company measures loss allowance for accounts receivable using the simplified approach under IFRS 9 with lifetime expected credit losses. Analysis of expected credit losses which was measured based on the aforementioned method, was as follows.:

| 2023.12.31 | | | | |
|--------------------------|--|----------------------------|--|---------------------------|
| | Weighted- average loss rate | Carrying amount | Loss allowance (Lifetime ECL) | Amortized cost |
| Current | 0% | \$ 8,600 | \$ - | \$ 8,600 |
| Past due 1 to 120 days | 0% | 294 | - | 294 |
| Past due 121 to 300 days | 0% | - | - | - |
| Past due over 301 days | 100% | <u>5</u> | <u>(5)</u> | <u>-</u> |
| | | <u>\$ 8,899</u> | <u>\$ (5)</u> | <u>\$ 8,894</u> |

| 2022.12.31 | | | | |
|--------------------------|--|----------------------------|--|---------------------------|
| | Weighted- average loss rate | Carrying amount | Loss allowance (Lifetime ECL) | Amortized cost |
| Current | 0% | \$ 1,466 | \$ - | \$ 1,466 |
| Past due 1 to 120 days | 0% | 1,871 | - | 1,871 |
| Past due 121 to 300 days | 0% | - | - | - |
| Past due over 301 days | 100% | <u>5</u> | <u>(5)</u> | <u>-</u> |
| | | <u>\$ 3,342</u> | <u>\$ (5)</u> | <u>\$ 3,337</u> |

(d) The movements of the loss allowance for accounts receivable are as follow:

| | 2023 | 2022 |
|----------------------------------|--------------------|--------------------|
| Balance at beginning of the year | \$ 5 | \$ 1 |
| Provision | <u>-</u> | <u>4</u> |
| Balance at end of the year | <u>\$ 5</u> | <u>\$ 5</u> |

The Company did not hold any collaterals or other credit enhancements for these accounts receivable.

(e) Please refer to Note 12 for description of credit risk management and valuation method.

(4) Inventories and Cost of Goods Sold

| | 2023.12.31 | 2022.12.31 |
|----------------|----------------------|------------------------|
| Finished goods | \$ 544 | \$ 52 |
| Raw materials | <u>34</u> | <u>2,699</u> |
| | <u>\$ 578</u> | <u>\$ 2,751</u> |

(a) The cost of inventories recognized in profit or loss is as follows:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|-------------------|------------------|
| Cost of goods sold | \$ 128,114 | \$ 73,225 |
| Loss on inventory scrapped | 3,691 | 2,052 |
| Gain on valuation of inventories | (5,436) | (4,537) |
| Others | <u>238</u> | <u>-</u> |
| | <u>\$ 126,607</u> | <u>\$ 70,740</u> |

(b) The net of reversal for inventories written off increased to net realizable value, which were also included in cost of revenue, amounted to \$5,436 and \$4,537 for the years ended December 31, 2023 and 2022, respectively.

(c) As of December 31, 2023 and 2022, none of the inventories were pledged.

(5) Investments Accounted for Using Equity Method

| <u>Name of Investee</u> | <u>2023.12.31</u> | | <u>2022.12.31</u> | |
|--|------------------------|--------------------------------|------------------------|--------------------------------|
| | <u>Carrying Amount</u> | <u>Percentage of Ownership</u> | <u>Carrying Amount</u> | <u>Percentage of Ownership</u> |
| Subsidiaries: | <u>\$ 34,766</u> | <u>100%</u> | <u>\$14,312</u> | <u>100%</u> |
| Phonic Group, Ltd. | | | | |
| Associates: | | | | |
| Everpoll Health Plus Water Technology, CO., Ltd. | <u>\$ 144,281</u> | <u>21.60%</u> | <u>\$ -</u> | |
| Total. | <u>\$ 179,047</u> | | <u>\$14,312</u> | |

(a) Please refer to Note 13 for the nature of business, operating locations, and registration information of the aforementioned subsidiaries and associates.

(b) The Company entered into an equity purchase and sale contract on September 20, 2023, agreeing to purchase 1,966 thousand issued shares of Everpoll Health Plus Water Technology, Co., Ltd. ("Everpoll"), which comprises 21.60% of the total number of issued shares. The total transaction price is \$143,518, with 1,450 thousand shares totaling \$105,850, which was paid in September 2023 and completed transfer of ownership in October 2023. The remaining 516 thousand shares, totaling \$37,668 was paid and completed transfer of stock ownership in January 2024.

(c) The aggregated financial information of Everpoll is as follows:

A. Balance sheet:

| | <u>2023.12.31</u> |
|------------------------------|-----------------------|
| Current assets | \$ 148,134 |
| Noncurrent assets | 78,276 |
| Current liabilities | (56,718) |
| Noncurrent liabilities | <u>(43,586)</u> |
| Equity | \$ <u>126,106</u> |
| Share of associates | \$ 27,244 |
| Goodwill | <u>117,037</u> |
| Carrying amount of associate | <u><u>144,281</u></u> |

B. Statement of comprehensive income

| | <u>2023.12.31</u> |
|---|-------------------------|
| Statement of comprehensive income | |
| Operating income | \$ <u>185,408</u> |
| Income from continued operations | \$ 21,114 |
| Gains and losses from discontinued operations | <u>-</u> |
| Net income | \$ 21,114 |
| Other comprehensive income (after tax) | <u>-</u> |
| Total comprehensive income | \$ <u><u>21,114</u></u> |
| Dividend received from associates | \$ <u><u>-</u></u> |

(d) Summary of the Company's share of subsidiaries and associates:

A. Subsidiary:

| | <u>Phonic Group Ltd.</u> | |
|-----------------------------------|--------------------------|------------------------|
| | <u>2023</u> | <u>2022</u> |
| Profit | \$ 20,864 | \$ 3,513 |
| Other Comprehensive Income (loss) | <u>(410)</u> | <u>146</u> |
| Total Comprehensive Income | \$ <u><u>20,454</u></u> | \$ <u><u>3,659</u></u> |

B. Associate

| | <u>Everpoll</u> | |
|----------------------------|----------------------|--------------------|
| | <u>2023</u> | <u>2022</u> |
| Profit | \$ 763 | \$ - |
| Other Comprehensive Income | <u>-</u> | <u>-</u> |
| Total Comprehensive Income | \$ <u><u>763</u></u> | \$ <u><u>-</u></u> |

(e) Investments accounted for using the equity method and the Company's share of profit or loss and other comprehensive income in these investments were calculated based on audited financial statements.

(6) Property, Plant and Equipment

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--------------------------------|-------------------|-------------------|
| Land | \$ 35,011 | \$ 35,011 |
| Buildings | 7,632 | 7,632 |
| Office equipment | 900 | 749 |
| Machinery and equipment | <u>6,589</u> | <u>6,589</u> |
| Total cost | 50,132 | 49,981 |
| Less: accumulated depreciation | <u>(8,507)</u> | <u>(8,201)</u> |
| | <u>\$ 41,625</u> | <u>\$ 41,780</u> |

| <u>Cost</u> | <u>Land</u> | <u>Buildings</u> | <u>Office equipment</u> | <u>Machinery and equipment</u> | <u>Total</u> |
|----------------------------|------------------|------------------|-----------------------------|------------------------------------|------------------|
| Balance, January 1, 2023 | \$ 35,011 | \$ 7,632 | \$ 749 | \$ 6,589 | \$ 49,981 |
| Additions | - | - | 151 | - | 151 |
| Balance, December 31, 2023 | <u>\$ 35,011</u> | <u>\$ 7,632</u> | <u>\$ 900</u> | <u>\$ 6,589</u> | <u>\$ 50,132</u> |

Accumulated depreciation

| | | | | | |
|----------------------------|-------------|-----------------|---------------|-----------------|-----------------|
| Balance, January 1, 2023 | \$ - | \$ 996 | \$ 616 | \$ 6,589 | \$ 8,201 |
| Depreciation | - | 220 | 86 | - | 306 |
| Balance, December 31, 2023 | <u>\$ -</u> | <u>\$ 1,216</u> | <u>\$ 702</u> | <u>\$ 6,589</u> | <u>\$ 8,507</u> |

| <u>Cost</u> | <u>Land</u> | <u>Buildings</u> | <u>Office equipment</u> | <u>Machinery and equipment</u> | <u>Total</u> |
|----------------------------|------------------|------------------|-----------------------------|------------------------------------|------------------|
| Balance, January 1, 2022 | \$ 35,011 | \$ 7,543 | \$ 749 | \$ 6,589 | \$ 49,892 |
| Additions | - | 89 | - | 143 | 232 |
| Disposals | - | - | - | (143) | (143) |
| Balance, December 31, 2022 | <u>\$ 35,011</u> | <u>\$ 7,632</u> | <u>\$ 749</u> | <u>\$ 6,589</u> | <u>\$ 49,981</u> |

Accumulated depreciation

| | | | | | |
|----------------------------|-------------|---------------|---------------|-----------------|-----------------|
| Balance, January 1, 2022 | \$ - | \$ 788 | \$ 549 | \$ 6,589 | \$ 7,926 |
| Depreciation | - | 208 | 67 | 13 | 288 |
| Disposals | - | - | - | (13) | (13) |
| Balance, December 31, 2022 | <u>\$ -</u> | <u>\$ 996</u> | <u>\$ 616</u> | <u>\$ 6,589</u> | <u>\$ 8,201</u> |

Certain property, plant and equipment were pledged as collateral, please refer to Note 8.

(7) Employee Benefits

Defined contribution plans

Under the defined contribution plan, the Company contributes monthly at a rate of no less than six percent of the employees' monthly salaries and wage to the employees' individual pension fund account at the ROC Bureau of Labor Insurance.

For the years ended December 31, 2023 and 2022, the Company recognized pension expenses of \$678 and \$610, respectively, in relation to the defined contribution plans.

(8) Long-term Borrowings

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------------|-------------------|-------------------|
| Secured loans | \$ 25,113 | \$ 26,548 |
| Credit loans | <u>3,587</u> | <u>3,792</u> |
| | 28,700 | 30,340 |
| Less: current portion | <u>(1,640)</u> | <u>(1,640)</u> |
| | <u>\$ 27,060</u> | <u>\$ 28,700</u> |
| Interest rate range | <u>1.90%</u> | <u>1.51%</u> |

Please refer to Note 8 for assets pledged as collateral to secure the aforementioned long-term borrowings.

(9) Common Stock

The Company's authorized common stock consisted of 38,000 thousand shares, with par value of \$10 per share, both amounted to \$380,000 as of December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the Company's issued common stock consisted of 20,000 thousand shares with par value of \$10 per share, both amounted to \$200,000.

(10) Capital Surplus

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--|-------------------|-------------------|
| Gain on disposal of assets | \$ 1,360 | \$ 1,360 |
| Donated surplus | 500 | 500 |
| Exercising the right of claim for disgorgement | <u>16,350</u> | <u>16,350</u> |
| | <u>\$ 18,210</u> | <u>\$ 18,210</u> |

Under the Company Act, the capital surplus generated from excess of the issuance price over the par value of capital stock and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as stock dividends or cash dividends. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalized mentioned above should not exceed a certain percentage of the Company's paid in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient. The capital surplus from investment accounted for using equity method may not be used for any purpose.

(11) Retained earnings and dividend policy

(a) According to the dividend policy of the Company's Article of Incorporation, when allocating the net profits in each fiscal year, the Company shall first utilize earnings to pay taxes, offset losses of previous years, and then set aside the 1) legal capital reserve at 10% of the profits left over 2) special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge; and 3) balance left over shall be allocated according to the resolution of the board of directors and the shareholders' meeting.

(b) Dividend policy

The dividend policy is based on the Company's Article of Incorporation, considering the capital planning and sustainable operation of the Company. The procedure of paying dividends is listed below:

- i. Process: According to the Company Act, at the end of each fiscal year, the Board of Directors should consider the Company's profitability, future operational needs, and report the earning distribution proposal to the stockholders' meeting for approval.
- ii. Distribution: 1) stock dividend; 2) capital surplus to be capitalized; and 3) cash dividend.
- iii. Policy: Cash dividends are limited to over 20% of total dividends distributed.

(c) Legal capital reserve

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset deficit or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

(d) Special capital reserve

- i. Pursuant to existing regulation, the Company is required to set aside additional special capital reverse equivalent to the debit balance of the other components of stockholders' equity. For the subsequent decrease in the deduction amount to stockholders' equity, and special reverse appropriated may be reversed to the extent that the net debit balance reverses.
- ii. In accordance with Ruling No.1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that were accounted for as deductions from shareholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deduction from shareholders' equity are reversed in subsequent periods.

(e) The deficit compensation proposal for 2022 and the appropriation of earnings for 2021 were approved by the shareholders in its meetings on June 27, 2023 and June 17, 2022, respectively. The aforementioned appropriation of earnings/deficit compensation proposal for 2022 and 2021 were consistent with the resolutions of the Board of Directors' meeting. The appropriation of earnings proposal for 2023 will be reported to the shareholders' meeting in June 2024.

(f) Information about the resolution of the Board of Directors' and shareholders' meetings regarding the appropriation of earnings is available on the Market Observation Post System website of the TWSE.

(12) Other Equity

| | Exchange differences on translation of foreign operations |
|--|--|
| Balance at January 1, 2023 | \$ (13,818) |
| Exchange difference arising from translation of foreign operations | (410) |
| Income tax effect | <u>82</u> |
| Balance at December 31, 2023 | <u><u>\$ (14,146)</u></u> |
| Balance at January 1, 2022 | \$ (13,935) |
| Exchange difference arising from translation of foreign operations | 146 |
| Income tax effect | <u>(29)</u> |
| Balance at December 31, 2022 | <u><u>\$ (13,818)</u></u> |

(13) Net Revenue

(a) Disaggregation of revenue

| <u>Primary geographical markets:</u> | <u>2023</u> | <u>2022</u> |
|---|--------------------------|-------------------------|
| Hong Kong | \$ 82,075 | \$ 9,463 |
| Turkey | 22,481 | \$ 52 |
| United States | 21,099 | \$ 37,027 |
| India | 14 | \$ 8,912 |
| Others | <u>34,994</u> | <u>30,731</u> |
| | <u><u>\$ 160,663</u></u> | <u><u>\$ 86,185</u></u> |
| <u>Major products:</u> | | |
| Mixer | \$ 12,572 | \$ 24,749 |
| Amplifier | 52,450 | \$ 46,495 |
| Speaker | 68,665 | \$ 10,595 |
| Others | <u>26,976</u> | <u>4,346</u> |
| | <u><u>\$ 160,663</u></u> | <u><u>\$ 86,185</u></u> |

(b) Contract liabilities - current:

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|---------------------------|--------------------------|--------------------------|
| Sales and service revenue | \$ <u><u>14,152</u></u> | \$ <u><u>33,411</u></u> |

For the years ended December 31, 2023 and 2022, the Company had recognized revenue from the beginning balance of current contract liabilities amounted to \$33,203 and \$5,957, respectively.

(14) Other Income

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|--------------|-----------------|
| Refund of pension reserve | \$ - | \$ 928 |
| Overdue payables recognized as income | - | 151 |
| Others | <u>80</u> | <u>-</u> |
| | <u>\$ 80</u> | <u>\$ 1,079</u> |

(15) Other Gains and Losses

| | <u>2023</u> | <u>2022</u> |
|---|-----------------|--------------|
| Net foreign exchange gain (loss) | \$ (592) | \$ 103 |
| Loss on disposal of property, plant and equipment | - | (66) |
| Others | <u>-</u> | <u>(13)</u> |
| | <u>\$ (592)</u> | <u>\$ 24</u> |

(16) Employee Benefits, Depreciation and Amortization

| | <u>2023</u> | | |
|----------------------------|--|---|------------------|
| | <u>Recognized in cost of revenue</u> | <u>Recognized in operating expenses</u> | <u>Total</u> |
| Employee benefits | | | |
| Salaries and wages | \$ - | \$ 15,218 | \$ 15,218 |
| Labor and health insurance | - | 1,412 | 1,412 |
| Pension | - | 678 | 678 |
| Director's remuneration | - | 1,080 | 1,080 |
| Other employee benefits | - | 690 | 690 |
| Depreciation | - | 306 | 306 |
| Amortization | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ -</u> | <u>\$ 19,384</u> | <u>\$ 19,384</u> |
| | <u>2022</u> | | |
| | <u>Recognized in cost of revenue</u> | <u>Recognized in operating expenses</u> | <u>Total</u> |
| Employee benefits | | | |
| Salaries and wages | \$ - | \$ 12,211 | \$ 12,211 |
| Labor and health insurance | - | 1,286 | 1,286 |
| Pension | - | 610 | 610 |
| Director's remuneration | - | 1,080 | 1,080 |
| Other employee benefits | - | 543 | 543 |
| Depreciation | - | 288 | 288 |
| Amortization | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ -</u> | <u>\$ 16,018</u> | <u>\$ 16,018</u> |

For the years ended December 31, 2023 and 2022, the information on numbers of employees and employee benefit expense of the Company was as follow:

- (a) The numbers of employees in the Company were 23 and 20, respectively. The directors who have not served as employees were both 6.
- (b) The average employee benefits expense was \$1,059 and \$1,046 in 2023 and 2022, respectively.
- (c) The average salaries and wages were \$895 and \$871 in 2023 and 2022, respectively.
- (d) The average salaries and wages was adjusted by 1%.
- (e) The Company shall allocate not lower than 2% and not higher than 1% of annual profits to employees' compensation and directors' and supervisors' remuneration, respectively.
- (f) The Company recognized the remuneration to employees and directors as follows:

| | <u>2023</u> | <u>2022</u> |
|-------------------------|---------------|-------------|
| Employee's remuneration | \$ 590 | \$ - |
| Directors' remuneration | <u>140</u> | <u>-</u> |
| | <u>\$ 730</u> | <u>\$ -</u> |

The amounts were calculated by the net profit before tax excluding employees' and directors' remuneration of each year multiplied by the percentage of employees' and directors' remuneration as specified in the Company's Article of Incorporation. The amounts were accounted for under operating expenses in 2023 and 2022. The differences between the estimated amounts in the financial statements and the actual amounts approved by the Board of Directors, if any, shall be accounted for as a change in accounting estimate and recognized in the next year.

- (g) For 2022 and 2021, employee compensation and director remuneration accrued were consistent with amounts paid. Related information is available at the Market Observation Post System website.

(17) Income Taxes

(a) Income tax expense

i. The components of income tax expense:

| | <u>2023</u> | <u>2022</u> |
|---|-----------------|-----------------|
| Current income tax | | |
| In respect of the current period | \$ (2) | \$ - |
| Additional tax on undistributed earnings | <u>-</u> | <u>1,040</u> |
| | <u>(2)</u> | <u>1,040</u> |
| Deferred income tax | | |
| The origination and reversal of temporary differences | <u>4,783</u> | <u>1,723</u> |
| Income tax expense | <u>\$ 4,781</u> | <u>\$ 2,763</u> |

ii. Income tax expense (benefit) recognized directly in other comprehensive income for the years ended December 31, 2023 and 2022 were as follows:

| | <u>2023</u> | <u>2022</u> |
|--|----------------|--------------|
| Exchange difference arising on translation of foreign operations | <u>\$ (82)</u> | <u>\$ 29</u> |

(b) Reconciliation of the expected income tax expense (benefit) calculated based on the ROC Statutory income tax rate compared with the actual income tax expense as reported in the statement of comprehensive income for the years ended December 31, 2023 and 2022, was as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|-------------------|
| Profit (loss) before income tax | <u>\$ 28,260</u> | <u>\$ (4,174)</u> |
| Income tax expense (benefit) at the statutory rate | 5,652 | (835) |
| Effects of reconciliation items: | | |
| Effects from items disallowed by tax regulation | 774 | 491 |
| Non-taxable income | (153) | - |
| Additional tax on undistributed earnings | - | 1,040 |
| Change in unrecognized temporary differences and tax losses | (1,594) | 2,067 |
| Adjustment to prior year | <u>102</u> | <u>-</u> |
| Income tax expense | <u>\$ 4,781</u> | <u>\$ 2,763</u> |

(c) The components of and change in deferred tax and liabilities were as follows:

| | 2023 | | | |
|--|---------------------------------|---|---|-----------------------------------|
| | Balance at January 1 | Recognized in profit or loss | Recognized in other comprehensive income | Balance at December 31 |
| Deferred income tax assets | | | | |
| Foreign investment losses | \$ 412 | \$ (412) | \$ - | \$ - |
| Allowance for inventory obsolescence | <u>1,102</u> | <u>(1,087)</u> | <u>-</u> | <u>15</u> |
| Total deferred income tax assets | <u>1,514</u> | <u>(1,499)</u> | <u>-</u> | <u>15</u> |
| Deferred income tax liabilities | | | | |
| Unrealized exchange gain | (1,220) | 476 | - | (744) |
| Foreign investment gains | - | (3,760) | 82 | (3,678) |
| Total deferred income tax liabilities | <u>(1,220)</u> | <u>(3,284)</u> | <u>82</u> | <u>(4,422)</u> |
| | \$ <u>294</u> | \$ <u>(4,783)</u> | \$ <u>82</u> | \$ <u>(4,407)</u> |
| 2022 | | | | |
| | Balance at January 1 | Recognized in profit or loss | Recognized in other comprehensive income | Balance at December 31 |
| Deferred income tax assets | | | | |
| Foreign investment losses | \$ 3,484 | \$ (3,043) | \$ (29) | \$ 412 |
| Unrealized exchange loss | <u>-</u> | <u>1,102</u> | <u>-</u> | <u>1,102</u> |
| Total deferred income tax assets | <u>3,484</u> | <u>(1,941)</u> | <u>(29)</u> | <u>1,514</u> |
| Deferred income tax liabilities | | | | |
| Unrealized exchange gain | <u>(1,438)</u> | <u>218</u> | <u>-</u> | <u>(1,220)</u> |
| Total deferred income tax liabilities | <u>(1,438)</u> | <u>218</u> | <u>-</u> | <u>(1,220)</u> |
| | \$ <u>2,046</u> | \$ <u>(1,723)</u> | \$ <u>(29)</u> | \$ <u>294</u> |

(d) Unrecognized deferred tax assets:

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|---------------------------|-------------------|-------------------|
| Unused loss carryforwards | <u>\$ 13,321</u> | <u>\$ 14,915</u> |

(20) Cash Flow Information

Non-cash transactions

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|-------------|
| Acquisitions of investments accounted for using equity method | \$ 143,518 | \$ - |
| Changes in payables to contractors | <u>(37,668)</u> | <u>-</u> |
| Payments for acquisition of investments accounted for using equity method | <u>\$ 105,850</u> | <u>\$ -</u> |

7. TRANSACTIONS WITH RELATED PARTIES

(1) Name of the parent company and the ultimate controlling party

The Company's parent company is Kangjian Investment Co., Ltd., which holds 58.18% of ordinary shares of the Company; The Company's ultimate controlling party is Taiwan Powder Technologies Co., Ltd., which directly and indirectly holds 63.70% of ordinary shares of the Company.

(2) Name and relationship of related parties

| <u>Name of related party</u> | <u>Relationship with the Company</u> |
|--|--------------------------------------|
| Phonic Group, Ltd. | Subsidiary |
| Shenzhen Yiba Electronic Co., Ltd. | Subsidiary of Phonic Group, Ltd. |
| Everpoll Health Plus Water Technology, Co., Ltd. | Associate |
| Members of the Board and the President | Key Management Personnel |

(3) Significant transaction with related parties

(a) Purchases

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|------------------|
| Shenzhen Yiba Electronic Co., Ltd. | \$ 117,072 | \$ 70,864 |
| Everpoll Health Plus Water Technology, Co., Ltd. | <u>\$ 4,890</u> | <u>\$ -</u> |
| | <u>\$ 121,962</u> | <u>\$ 70,864</u> |

Since the Company did not purchase the same products from other manufacturers, there are no comparable trading terms.

(b) Payables to related parties

| <u>Item</u> | <u>Name of related party</u> | <u>2023.12.31</u> | <u>2022.12.31</u> |
|------------------|--|-------------------|-------------------|
| Accounts payable | Shenzhen Yiba Electronic Co., Ltd. | \$ 23,826 | \$ 3,403 |
| | Everpoll Health Plus Water Technology, Co., Ltd. | 2,441 | - |
| | Phonic Group, Ltd. | - | 53 |
| | | <u>\$ 26,267</u> | <u>\$ 3,456</u> |
| Other payables | Everpoll Health Plus Water Technology, Co., Ltd. | <u>\$ 60</u> | <u>\$ -</u> |

(c) Operating expenses

| <u>Item</u> | <u>Name of related party</u> | <u>2023</u> | <u>2022</u> |
|--------------|--|-------------|-------------|
| Rent Expense | Everpoll Health Plus Water Technology, Co., Ltd. | \$ 171 | \$ - |

The Company leased warehouses from the associate. The lease terms were determined in accordance with mutual agreements. The rental expenses were paid to the associate monthly, and the related expenses were classified under cost of revenue.

(4) Compensation to key management personnel

The compensation to directors and other key management personnel for the years ended December 31, 2023 and 2022 were as follows:

| | | |
|---|-----------------|-----------------|
| | <u>2023</u> | <u>2022</u> |
| Salaries and other short-term employee benefits | <u>\$ 3,001</u> | <u>\$ 2,851</u> |

8. ASSETS PLEDGED AS COLLATERAL

| <u>Pledged assets</u> | <u>Pledged to secure</u> | <u>2023.12.31</u> | <u>2022.12.31</u> |
|-----------------------|--------------------------|-------------------|-------------------|
| Land and buildings | Long-term borrowings | \$ <u>41,268</u> | \$ <u>41,450</u> |

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

None.

10. SIGNIFICANT LOSSES FROM DISASTERS

None.

11. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Please refer to Note 6(5).

12. OTHER INFORMATION

(1) Capital risk management

The Company requires an adequate capital structure to enable enhancement of its plant and equipment, and normal operation. Therefore, the Company manages its capital to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, debt service requirements and dividend payments associated with its existing operations over the next 12 months.

(2) Financial Instruments

(a) Financial Risk of financial instrument.

Financial risk management objectives and policies

The Company's risk management objectives are to manage the market risk (including foreign currency risk, interest risk and price risk), credit risk and liquidity risk related to its operating activities. The Company identifies measures and manages the aforementioned risks and mitigates the disadvantageous impact on financial performance. The material treasury activities are reviewed by Audit Committees and/or Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, Corporate Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

Nature and extent of significant financial risks

(i) Market risk

A. Foreign currency risk

i. The Company is exposed to the foreign currency risk due to the transaction of sales, purchase and cash denominated in foreign currency other than the Company's functional currency. These non-functional currencies are USD and RMB.

ii. Foreign currency exposure and sensitivity analysis

| 2023.12.31 | | | | | | |
|-----------------------|--|----------------------|---|-----------------------------|---------------------------------|-------------------------|
| | Foreign Currencies (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) | Sensitivity analysis | | |
| | | | | Extent of variation | Impact on Profit or loss | Impact on Equity |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | \$ 908 | 30.705 | \$ 27,886 | 1% | \$ 279 | \$ - |
| RMB: NTD | 7 | 4.327 | 32 | 1% | - | - |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| RMB: NTD | \$ (5,510) | 4.327 | \$ (23,841) | 1% | \$ (238) | \$ - |
| 2022.12.31 | | | | | | |
| | Foreign Currencies (In Thousands) | Exchange Rate | Carrying Amount (In Thousands) | Sensitivity analysis | | |
| | | | | Extent of variation | Impact on Profit or loss | Impact on Equity |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD:NTD | \$ 1,515 | 30.71 | \$ 46,529 | 1% | \$ 465 | \$ - |
| RMB: NTD | 30 | 4.408 | 134 | 1% | 1 | - |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| RMB: NTD | \$ (787) | 4.408 | \$ (3,469) | 1% | \$ (35) | \$ - |

If New Taiwan Dollar strengthened against the relevant currency and all other variables were held constant, there would be an equal and opposite impact on profit or loss and other equity as of December 31, 2023 and 2022.

iii. Since there were varieties of foreign currencies within the Company, the Company disclosed the summarized foreign exchange gain (loss) information of monetary items. The realized and unrealized foreign exchange gain (loss) were \$(592) and \$103 for the years ended December 31, 2023 and 2022, respectively.

iv. The Company believes the unrealized exchange gain (loss) of fluctuation risk on foreign currency monetary item is insignificant.

B. Interest rate risk

The Company's exposure to changes in interest rates is mainly from floating-rate long-term debt obligations. Any changes in interest rates will cause the effective interest rates of long-term borrowings to change and thus cause the future cash flows to fluctuate over time.

Assuming the amount of floating-rate debts at the end of the reporting period had been outstanding for the entire year and all other variables were remained constant, an increase or a decrease in the interest rate by 0.25% would have resulted in a decrease or an increase in the net profit before tax for the years ended December 31, 2023 and 2022 by \$72 and \$76, respectively.

(ii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Company. The Company is exposed to credit risk from operating activities, primarily from accounts receivable, and from investing activities, primarily from bank deposits, fixed-income investments and other financial instruments. The Company managed credit risk separately for business related and financial related risk.

A. Business related credit risk :

To maintain the quality of accounts receivable, the Company has established related credit risk management procedures. The risk assessment of each individual customer includes evaluating financial position, credit institution report, internal evaluation, historical trading records and economic circumstance which could affect the payment ability of the customer. The Company may choose to strengthen overall risk management by including collection in advance or credit insurance to mitigate the credit risk of certain customers.

B. Financial credit risk :

The financial department of the Company regularly monitors and reviews the credit risk of bank deposit and other financial instruments. The Company mitigates its exposure by selecting counterparties (Banks, financial institution, company organization and government authorities) with good credit and investment-grade credit ratings. The credit risk is insignificant.

i. Concentration of credit risk

As of December 31, 2023 and 2022, accounts receivable from the top 10 customers represent 64% and 46% of total accounts receivables of the Company, respectively. To reduce the credit risk of accounts receivable, the Company should continue evaluating customers' financial position and ask customers to offer guarantees if necessary.

ii. Expected credit loss measurement

Notes and Accounts receivable: Simplified approach, please refer to Note 6 (3).

Judgment on whether credit risk is increasing significantly: None.

iii. To hold collaterals and other credit enhancements to hedge the credit risk of its financial assets:

The Company doesn't hold collaterals, offset agreement and other credit enhancements to hedge the credit risk of its financial assets. The maximum credit risk exposure of the aforementioned financial instrument is equal to their carrying amounts recognized in the balance sheet.

(iii) Liquidity risk

A. Liquidity risk management

The Company's objective of managing liquidity risk is to maintain sufficient cash and cash equivalents required for operations, highly liquid securities, bank financing lines for operations, and to ensure that the Company has sufficient financial flexibility.

B. Maturity analysis of financial liabilities

| Non-derivative financial liabilities | 2023.12.31 | | | | | |
|--|--------------------|-----------------|-----------------|------------------|------------------------|-------------------|
| | Less than 6 Months | 6–12 Months | 1–5Years | Over 5 Years | Contractual Cash flows | Carrying Amount |
| Notes payable | \$ 17 | \$ - | \$ - | \$ - | \$ 17 | \$ 17 |
| Accounts payable (including related parties) | 29,394 | - | - | - | 29,394 | 29,394 |
| Other payables (including related parties) | 47,753 | - | - | - | 47,753 | 47,753 |
| Long-term borrowings (including current portion) | 1,089 | 1,082 | 8,372 | 22,951 | 33,494 | 28,700 |
| | <u>\$ 78,253</u> | <u>\$ 1,082</u> | <u>\$ 8,372</u> | <u>\$ 22,951</u> | <u>\$ 110,658</u> | <u>\$ 105,864</u> |

| Non-derivative financial liabilities | 2022.12.31 | | | | | |
|--|--------------------|-----------------|-----------------|------------------|------------------------|------------------|
| | Less than 6 Months | 6–12 Months | 1–5Years | Over 5 Years | Contractual Cash flows | Carrying Amount |
| Notes payable | \$ 66 | \$ - | \$ - | \$ - | \$ 66 | \$ 66 |
| Accounts payable (including related parties) | 7,755 | - | - | - | 7,755 | 7,755 |
| Other payables | 3,914 | - | - | - | 3,914 | 3,914 |
| Long-term borrowings (including current portion) | 1,046 | 1,040 | 8,100 | 24,411 | 34,597 | 30,340 |
| | <u>\$ 12,781</u> | <u>\$ 1,040</u> | <u>\$ 8,100</u> | <u>\$ 24,411</u> | <u>\$ 46,332</u> | <u>\$ 42,075</u> |

The Company neither expects the timing of occurrence of the cash flows estimated through the maturity date analysis to be significantly earlier nor expects the actual cash flow amount to be significantly different.

(b) Categories of financial instruments

| | <u>2023.12.31</u> | <u>2022.12.31</u> |
|--|-------------------|-------------------|
| <u>Financial assets</u> | | |
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents | \$ 154,926 | \$ 256,659 |
| Notes and accounts receivable | 8,894 | 3,337 |
| Other receivables | 187 | 148 |
| Refundable deposits | <u>2</u> | <u>2</u> |
| | <u>\$ 164,009</u> | <u>\$ 260,146</u> |
| <u>Financial liabilities</u> | | |
| Financial liabilities measured at amortized cost | | |
| Notes and accounts payable (including related parties) | \$ 29,411 | \$ 7,821 |
| Other payables (including related parties) | 47,753 | 3,914 |
| Long-term borrowings (including current portions) | <u>28,700</u> | <u>30,340</u> |
| | <u>\$ 105,864</u> | <u>\$ 42,075</u> |

(3) Fair value information

- (a) For the fair value of financial instruments that are not measured at fair value, please refer to the Note 12 (3) (b).

Level 1

Fair value measurements of the Level 1 are those derived from quoted prices in active markets for identical financial instruments. An active market is a market in which transactions for identical instrument take place with sufficient frequency and volume to provide public pricing information on an ongoing basis. The foreign publicly traded debt instruments and the domestic beneficiary certificates invested by the Company were classified as this hierarchy.

Level 2

Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3

Fair value measurements are those derived from valuation techniques that include inputs for instrument that are not based on observable market data.

(b) Financial instruments that are not measured at fair value

The Company considers the carrying amounts of financial instruments that are not measured at fair value, such as cash and cash equivalents, notes and accounts receivables, other receivables, refundable deposits, notes and accounts payable, other payables, and long-term borrowings, approximate to their fair values.

(c) Fair value hierarchy information

The Company's financial instruments measured at fair value were under a recurring basis.

(d) Valuation techniques and assumptions used in fair value measurement

i. If there is an active market for the financial instruments, the fair value of the financial instruments is measured at the quoted market prices. The quoted market prices announced by the main market place and the prices of government bonds classified as popular securities announced by Taipei Exchange (TPEX) are deemed as fair value foundation of publicly traded equity instruments and debt instruments with an active market.

If there are timely and frequent quoted prices from the exchange market, the broker, the dealer, industry association, price service organization, or the administrative, and the prices represent actual, frequent, and fair trades, the financial instruments are deemed as with an active market. Otherwise, the market is deemed as not active. In general, huge price gaps, price gaps apparently expanding, and small trading volumes are indicators of a non-active market.

ii. The Company considered the credit risk evaluation adjustment for financial instruments and non-financial instruments to reflect the credit risk of the counterparty and the credit quality of the Company.

iii. There were no transfers between different fair value hierarchies for the years ended December 31, 2023 and 2022, respectively.

13. SEPARATELY DISCLOSED ITEMS

(1) Information about significant transactions:

(a) Financing provided to others: None

(b) Endorsements/guarantees provided: None

(c) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures):
None

(d) Marketable securities acquired and disposed at costs or prices at least \$300 million or 20% of the paid-in capital: Please see Table 1 attached

(e) Acquisition of individual real estate at costs of at least \$300 million or 20% of the paid-in capital: None

(f) Disposal of individual real estate at prices of at least \$300 million or 20% of the paid-in capital:
None

(g) Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 2 attached

(h) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 3 attached

- (i) Trading in derivative instruments: None
 - (j) The business relationship between the parent and the subsidiaries and significant transactions between them: Please see Table 4 attached.
- (2) Related Information of investees: Please see Table 5 attached.
 - (3) Information on investments in Mainland China: Please see Table 6 attached.
 - (4) Information of major shareholder (list of all shareholders with ownership 5% or greater showing the names and the number of shares and percentage of ownership held by each shareholder): Please see Table 7 attached.

14. SEGMENT INFORMATION

The Company has provided the operating segments information disclosed in the Consolidated Financial Statements.

Phonic Co., Ltd.

**Marketable Securities Acquired and Disposed at Costs or Prices at Least \$300 Million or 20% of the Paid-in Capital
December 31, 2023**

(Amounts in Thousands of New Taiwan Dollars)

TABLE 1

| Purchaser/ seller | Type and Name of Marketable Securities | Financial Statement Account | Counterparty | Relationship | Beginning Balance | | Acquisitions | | Disposals | | | | Ending Balance | |
|----------------------|---|--|---|------------------------|----------------------|--------|--------------|------------|-----------|-------|--------------------|--------------------------------------|-------------------|-----------|
| | | | | | Shares | Amount | Shares | Amount | Shares | Price | Carrying Amount | Gains and losses from disposal | Shares | Amount |
| Phonic Co., Ltd. | Stock | Investments accounted for using equity method | Filtreck Co., Ltd. and ten other natural persons | Non-related parties | - | \$ - | 1,966 | \$ 143,518 | - | \$ - | - | - | 1,966 | \$143,518 |

Phonic Co., Ltd.

**Purchases from or Sales to Related Parties amounting to at Least \$100 Million or 20% of the Paid-in Capital
December 31, 2023**

(Amounts in Thousands of New Taiwan Dollars)

TABLE 2

| 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) | | |
| Phonic Co., Ltd. | Shenzhen Yiba Electronic Co. Ltd. | Subsidiary | Purchases | \$ 117,072 | 92.53% | Note1 | \$ - | \$ - | - | \$ (23,826) | 99.80% | - |
| Shenzhen Yiba Electronic Co. Ltd. | Phonic Co., Ltd. | Parent company | Sales | \$ 117,072 | 89.34% | Note1 | \$ - | \$ - | - | \$ 23,826 | 81.01% | - |

Note 1: Periodical settlement offset the mutual obligation.

Note 2: All inter-company transactions among Phonic Co., Ltd. and its subsidiaries have been eliminated in the consolidated financial statements.

Phonic Co., Ltd.
Receivables from Related Parties Amounting to at Least \$100 Million or 20% of the Paid-in Capital
December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 3

| Creditor | Counterparty | Relationship with the counterparty | Ending balance | Turnover rate | Overdue receivables | | Amount collected in subsequent of period | Allowance for doubtful accounts |
|--------------------|------------------------------------|------------------------------------|----------------|---------------|---------------------|--------------|--|---------------------------------|
| | | | | | Amount | Action taken | | |
| Phonic Group, Ltd. | Shenzhen Yiba Electronic Co., Ltd. | The subsidiary of the Company | \$ 82,079 | — | \$ — | — | \$ — | — |

Note 1: All inter-company transactions among Phonic Co., Ltd. and its subsidiaries have been eliminated in the consolidated financial statements.

Phonic Co., Ltd.
Intercompany Relationship and Significant Intercompany Transactions
For the Year Ended December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 4

| Number (Note1) | Company name | Counterparty | Relationship (Note2) | Transaction | | | Percent of consolidated net revenues or total assets (Note3) |
|-------------------|--------------------------------------|--------------------------------------|-------------------------|------------------------|-----------|--|---|
| | | | | General ledger account | Amount | Transaction terms | |
| 1 | Phonic Group, Ltd. | Shenzhen Yiba Electronic Co., Ltd | 3 | Accounts receivable | \$82,079 | Periodical settlement offset the mutual obligation | 21.39% |
| 2 | Shenzhen Yiba Electronic Co., Ltd | Phonic Co., Ltd. | 2 | Accounts receivable | \$23,826 | Periodical settlement offset the mutual obligation | 6.21% |
| 2 | Shenzhen Yiba Electronic Co., Ltd | Phonic Co., Ltd. | 2 | Sales | \$117,072 | Periodical settlement offset the mutual obligation | 68.49% |

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 coded consecutively beginning from "1".

Note 2: Relationship between transaction parties is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated asset/liability for transaction of balance sheet items are based on each item's balance at period-end. For profit or loss items, cumulative balances are used as basis.

Phonic Co., Ltd.
Information of Investees (Excluding Information on Investment in Mainland China)
For the Year Ended December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 5

| Investor | Investee | Location | Main business activities | Initial investment amount | | Balance as of December 31, 2023 | | | Net Income (Losses) of the Investee | Share of Profits/Losses of Investee | Note |
|------------------|--|----------|----------------------------|---------------------------|-------------------|---------------------------------|-------------------------|----------------|-------------------------------------|-------------------------------------|------|
| | | | | December 31, 2023 | December 31, 2022 | Number of Shares | Percentage of Ownership | Carrying Value | | | |
| Phonic Co., Ltd. | Phonic Group, Ltd. | BVI | Investment | \$ 16,373 | \$ 16,373 | 271 | 100% | \$ 34,766 | \$ 20,864 | \$ 20,864 | — |
| Phonic Co., Ltd. | Everpoll Health Plus Water Technology, Co., Ltd. | Taiwan | Selling of Water Purifiers | \$ 143,518 | \$ - | 1,966 | 21.06% | \$ 144,281 | \$ 21,114 | 763 | |

Phonic Co., Ltd.
Information on Investment in Mainland China
For the Year Ended December 31, 2023
(Amounts in Thousands of New Taiwan Dollars)

TABLE 6

| Investee in Mainland China | Main business activities | Total Amount of Paid-in Capital | Investment method | Accumulated Outflow of Investment from Taiwan as of January 1, 2023 | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2023 | Net Income (Losses) of the Investee Company | Ownership held by the Company (direct or indirect) (%) | Share of Profits/Losses (Note 2) | Carrying Amount as of December 31, 2023 | Accumulated Inward Remittance of Earnings as of December 31, 2023 |
|------------------------------------|--|---------------------------------|-------------------|---|------------------|--------|---|---|--|----------------------------------|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| Shenzhen Yiba Electronic Co., Ltd. | Manufacturing and selling of professional audio products | 19,419 (HKD 5,000) | Note 1 | \$ 19,419 | — | — | \$ 19,419 | \$ 20,961 | 100% | 20,961 | \$ (47,355) | \$ — |

| Accumulated Investment in Mainland China as of December 31, 2023 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| USD 2,785,000 (\$92,045) (Note 3) | USD 2,955,000 (97,798) | \$161,023 |

Note 1: Indirectly investment in Mainland China through Company registered in a third region (Phonic Group, Ltd).

Note 2: Investment income recognized in current period is based on the financial reports audited by CPAs of the Taiwan parent company.

Note3: The total amount of investment transferred from Taiwan to Mainland China at the end of this period approved by the Investment Commission including All Yu Electronics Manufacturing Co., Ltd. (located in Ningbo Free Trade Zone, and had been liquidated) and Fung Mega International Trading (Shanghai) Co., Ltd. amounted, USD 2,000 thousand (about \$ 68,104), and USD 140 thousand (About \$ 4,522), respectively.

The significant transactions with mainland invested companies, directly or indirectly through the third area, and their prices, terms of payment, unrealized gains or losses and other relevant data to facilitate understanding of the impact of Consolidated Financial Statements of mainland investment on the financial statements:

(1) Please refer to Table 3 for significant transactions between the Company and the mainland China investee indirectly invested through the third region for the year ended December 31, 2023.

(2) The unrealized (loss) profit incurred by the Company indirectly invested through the third region of the Republic of China for the year ended December 31, 2023 listed below:

| Company of Sales | The Counterparty | Relationship with the party | Unrealized loss |
|------------------------------------|------------------|-----------------------------|-----------------|
| Shenzhen Yiba Electronic Co., Ltd. | Phonic Co., Ltd | Subsidiary | \$ — |

PHONIC CO., LTD.**Information Of Major Shareholders****December 31, 2023****TABLE 7**

| Shareholders | Shares | |
|--------------------------------------|---------------------------|-----------------------------|
| | Total shares owned | Ownership Percentage |
| Kangjian Investment Co., Ltd. | 11,636,315 | 58.18% |
| WANG , MIN-LIE | 1,151,832 | 5.75% |
| Taiwan Powder Technologies Co., Ltd. | 1,104,555 | 5.52% |

Note 1: The main shareholder information in this table is calculated by the Taiwan Depository & Clearing Corporation, using total number of ordinary shares and preferred shares held by the shareholders who have completed the Company's dematerialized securities registration and delivery (including treasury shares) of more than 5% on the last business day at the end of each quarter. As for the difference between capital stock recorded in the Company's financial report and the number of shares which the Company actually have completed the dematerialized securities registration and delivery, may result from computation basis.

Note 2: In the case of the information above, if the shareholder delivers the shares to the trust, it is disclosed in the individual accounts of the trustee. As for the shareholder's declaration of insider's equity holding more than 10% of the shares in accordance with the Securities and Exchange Act, trustor's shareholding includes their own shareholding plus the shares delivered to the trust and the right to use the trust property, etc. For information on insider's equity declaration, please refer to the Public Information Observatory.

Phonic Corporation

Responsible person: Chou Ching-Wen