

**PROLIFIC TECHNOLOGY INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**With Independent Auditors' Report
For the Years Ended December 31, 2023 and 2022**

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The independent auditors' report and the accompanying 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' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Company history	9
(2) Approval date and procedures of the consolidated financial statements	9
(3) New standards, amendments and interpretations adopted	9~10
(4) Summary of material accounting policies	10~25
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	25~26
(6) Explanation of significant accounts	26~51
(7) Related-party transactions	51~52
(8) Pledged assets	52
(9) Significant contingent liabilities and unrecognized commitments	52
(10) Losses Due to Major Disasters	52
(11) Subsequent Events	52
(12) Other	52~53
(13) Other disclosures	
(a) Information on significant transactions	53~54
(b) Information on investees	54
(c) Information on investment in mainland China	54
(d) Major shareholders	54
(14) Segment information	54~55

Representation Letter

The entities that are required to be included in the combined financial statements of PROLIFIC TECHNOLOGY INC. 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 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, PROLIFIC TECHNOLOGY INC. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: PROLIFIC TECHNOLOGY INC.

Chairman: CHING TANG CHANG

Date: March 5, 2024



安侯建業聯合會計師事務所
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Independent Auditors' Report

To the Board of Directors of Prolific Technology Inc.:

Opinion

We have audited the consolidated financial statements of Prolific Technology Inc. and its subsidiaries (“the Group”), which comprise the consolidated balance sheet as of December 31, 2023 and 2022, the consolidated statementS of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material 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 with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants and 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 Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Impairment of accounts receivable

Please refer to Note 4(g) for accounting policy for the impairment of accounts receivable. For the assessment of impairment of accounts receivable, please refer to Note 6(d).

Description of key audit matter:

The Group engages in business primarily with clients which are involved in the distribution of mold and electronic parts with credit term, which make the Group vulnerable to credit risk. The credit status of customers will affect the impairment assessment of accounts receivable and need continuous attention. Also, the accounts receivable is an important asset item in the consolidated financial report. Therefore, the assessment of impairment of accounts receivable needed to be taken into serious consideration.

How the matter was addressed in our audit:

Our principal audit procedures included: assessing whether the Group's impairment of accounts receivable has been set aside in accordance with the Group's policy, including inquiring from the management if they had identified the debtors who have financial difficulties; selecting a moderate number of samples from the account aging statements to ensure the accuracy of the statements, and understanding the reason on overdue accounts; assessing the uncollectable accounts receivable for the appropriateness of impairment assessment of accounts receivable; assessing the appropriateness and adequacy for doubtful accounts made by the management based on the subsequent collection of accounts receivable.

2. Evaluation of inventory

Please refer to Note 4(h) for accounting policy for inventories. Note 5 and Note 6(e) for accounting assumptions and judgments, and major sources of estimation uncertainty of the consolidated financial statements.

Description of key audit matter:

Evaluation of inventory is one of the key judgmental areas for our audit, the Group is primarily involved in the research, development, design and sales of integrated circuits. As different series or models of electronic products are rapidly being replaced by new ones, it may impact the inventory of the older ones to be slow-moving, or worse yet, stagnant, thus, may result the cost of inventory to be higher than the net realized value. The assessment of the net realized value of inventory requires subjective judgements of the management, which is the major source of estimation uncertainty.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the inventories valuation policies of the Group; assessing whether appropriate inventory policies are applied through comparison with accounting standards; retroactively inspecting the reasonability for allowance provided on inventory valuation in the past and compare it to the current year to ensure that the measurements and assumptions are reasonable; and inspecting the inventory sales status subsequent to the reporting date.

Other Matter

PROLIFIC TECHNOLOGY INC. has 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 unmodified opinion.

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 with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management 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 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 auditor's 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 professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 auditor's 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 Huang, Yung-Hua and Yu, Sheng-Ho.

KPMG

Taipei, Taiwan (Republic of China)
March 5, 2024

Notes 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' report and the accompanying 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' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2023 and 2022

(Expressed in thousands of New Taiwan Dollars)

		December 31, 2023		December 31, 2022				December 31, 2023		December 31, 2022	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets						Liabilities and Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(a))	\$ 481,057	40	543,261	46	2170	Accounts payable	\$ 24,984	2	42,326	4
1110	Current financial assets at fair value through profit or loss (note (b))	37,260	3	-	-	2219	Other payables	1,600	-	2,961	-
1170	Notes and accounts receivable, net (note 6(d))	43,117	4	47,616	4	2280	Current lease liabilities (note 6(j))	1,058	-	1,041	-
130X	Inventories (note 6(e))	74,406	6	115,536	10	2305	Other financial liabilities and current liabilities	<u>41,931</u>	<u>4</u>	<u>46,815</u>	<u>4</u>
1470	Other financial assets and current assets (notes 7 and 8)	<u>10,532</u>	<u>1</u>	<u>11,683</u>	<u>1</u>			<u>69,573</u>	<u>6</u>	<u>93,143</u>	<u>8</u>
		<u>646,372</u>	<u>54</u>	<u>718,096</u>	<u>61</u>	Non-current liabilities:					
Non-current assets:						2580	Non-current lease liabilities (note 6(j))	34,874	3	35,932	3
1517	Non-current financial assets at fair value through other comprehensive income (note 6(c))	328,187	28	224,684	19	25XX	Non-current liabilities	<u>2,882</u>	<u>-</u>	<u>2,882</u>	<u>-</u>
1600	Property, plant and equipment (note 6(f))	92,156	7	96,543	8			<u>37,756</u>	<u>3</u>	<u>38,814</u>	<u>3</u>
1755	Right-of-use assets (note 6(g))	34,608	3	35,878	3		Total liabilities	<u>107,329</u>	<u>9</u>	<u>131,957</u>	<u>11</u>
1760	Investment property, net (note 6(h))	68,715	6	70,482	6		Equity attributable to owners of parent (notes 6(c), (n) and (o)):				
1780	Intangible assets (note 6(i))	4,931	-	6,826	1	3100	Ordinary shares	<u>796,099</u>	<u>66</u>	<u>796,099</u>	<u>68</u>
1840	Deferred income tax assets (note 6(m))	13,182	1	13,182	1	3140	Capital in advance	<u>4,531</u>	<u>-</u>	<u>-</u>	<u>-</u>
1990	Other non-current assets (note 6(l))	<u>10,896</u>	<u>1</u>	<u>12,466</u>	<u>1</u>	3200	Capital surplus	<u>134,857</u>	<u>12</u>	<u>129,081</u>	<u>10</u>
		<u>552,675</u>	<u>46</u>	<u>460,061</u>	<u>39</u>		Retained earnings:				
						3310	Legal reserve	4,281	-	-	-
						3350	Retained earnings	<u>892</u>	<u>-</u>	<u>42,805</u>	<u>4</u>
								<u>5,173</u>	<u>-</u>	<u>42,805</u>	<u>4</u>
							Other equity:				
						3421	Unrealized gain or loss on equity instruments at fair value through other comprehensive income	<u>151,058</u>	<u>13</u>	<u>78,215</u>	<u>7</u>
							Total equity	<u>1,091,718</u>	<u>91</u>	<u>1,046,200</u>	<u>89</u>
Total assets		\$ <u>1,199,047</u>	<u>100</u>	<u>1,178,157</u>	<u>100</u>		Total liabilities and equity	\$ <u>1,199,047</u>	<u>100</u>	<u>1,178,157</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

(Expressed in thousands of New Taiwan Dollars , except for earnings per share)

		2023		2022	
		Amount	%	Amount	%
4000	Operating revenue (note 6(q))	\$ 360,522	100	438,323	100
5000	Operating costs (notes 6(e) and 12)	<u>222,101</u>	<u>62</u>	<u>262,621</u>	<u>60</u>
	Gross profit from operations	<u>138,421</u>	<u>38</u>	<u>175,702</u>	<u>40</u>
	Operating expenses (notes 6(d), (j), (l) and 12):				
6100	Selling expenses	15,592	4	17,573	4
6200	Administrative expenses	57,822	16	62,454	14
6300	Research and development expenses	97,606	27	96,662	22
6450	Reversal of impairment loss	<u>(10)</u>	<u>-</u>	<u>(24)</u>	<u>-</u>
		<u>171,010</u>	<u>47</u>	<u>176,665</u>	<u>40</u>
	Net operating loss	<u>(32,589)</u>	<u>(9)</u>	<u>(963)</u>	<u>-</u>
	Non-operating income and expenses:				
7100	Interest income	5,841	2	3,813	1
7010	Other income (notes 6(k), (s) and 7)	28,740	8	23,891	5
7020	Other gains and losses (note 6(s))	1,534	-	13,930	3
7050	Finance costs (note 6(j))	<u>(634)</u>	<u>-</u>	<u>(630)</u>	<u>-</u>
		<u>35,481</u>	<u>10</u>	<u>41,004</u>	<u>9</u>
	Profit before income tax	2,892	1	40,041	9
7950	Less: income tax expenses (note 6(m))	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Profit	<u>2,892</u>	<u>1</u>	<u>40,041</u>	<u>9</u>
8300	Other comprehensive income (loss):				
8310	Items that may not be reclassified subsequently to profit or loss:				
8311	Gains (losses) on remeasurements of defined benefit plans (note 6(l))	(2,000)	(1)	2,764	1
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income (note 6(c))	<u>72,843</u>	<u>21</u>	<u>5,277</u>	<u>1</u>
8300	Other comprehensive income (after tax)	<u>70,843</u>	<u>20</u>	<u>8,041</u>	<u>2</u>
	Comprehensive income	<u>\$ 73,735</u>	<u>21</u>	<u>48,082</u>	<u>11</u>
	Profit attributable to:				
	Owners of parent	<u>\$ 2,892</u>	<u>1</u>	<u>40,041</u>	<u>9</u>
	Comprehensive income attributable to:				
	Owners of parent	<u>\$ 73,735</u>	<u>21</u>	<u>48,082</u>	<u>11</u>
	Basic earnings per share (NT dollars) (note 6(p))	<u>\$ 0.04</u>		<u>0.50</u>	
	Diluted earnings per share (NT dollars) (note 6(p))	<u>\$ 0.04</u>		<u>0.50</u>	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2023 and 2022****(Expressed in thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent					Other equity	
	Share capital			Retained earnings		Unrealized gain or loss on financial assets measured at fair value through other comprehensive income	
	Ordinary shares	Capital in advance	Capital surplus	Legal reserve	Retained earnings (accumulated deficit)		Total equity
Balance on January 1, 2022	\$ 796,099	-	306,700	-	(186,499)	72,938	989,238
Profit for the year ended December 31, 2022	-	-	-	-	40,041	-	40,041
Other comprehensive income for the year ended December 31, 2022	-	-	-	-	2,764	5,277	8,041
Comprehensive income for the year ended December 31, 2022	-	-	-	-	42,805	5,277	48,082
Capital surplus used to offset accumulated deficits	-	-	(186,499)	-	186,499	-	-
Employee stock option remuneration costs	-	-	8,880	-	-	-	8,880
Balance on December 31, 2022	796,099	-	129,081	-	42,805	78,215	1,046,200
Profit for the year ended December 31, 2023	-	-	-	-	2,892	-	2,892
Other comprehensive income for the year ended December 31, 2023	-	-	-	-	(2,000)	72,843	70,843
Comprehensive income for the year ended December 31, 2023	-	-	-	-	892	72,843	73,735
Legal reserve appropriated	-	-	-	4,281	(4,281)	-	-
Cash dividends on ordinary share	-	-	-	-	(38,524)	-	(38,524)
Issuance of shares exercised as employee stock options	-	4,531	-	-	-	-	4,531
Employee stock option remuneration costs	-	-	5,776	-	-	-	5,776
Balance on December 31, 2023	\$ 796,099	4,531	134,857	4,281	892	151,058	1,091,718

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2023 and 2022****(Expressed in thousands of New Taiwan Dollars)**

	2023	2022
Cash flows from (used in) operating activities:		
Profit before tax	\$ 2,892	40,041
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	8,188	11,642
Amortization expense	3,095	5,288
Net gain on financial assets at fair value through profit or loss	(260)	-
Interest expense	634	630
Interest revenue	(5,841)	(3,813)
Dividend income	(12,485)	(8,110)
Share-based payments compensation cost	5,776	8,880
Losses on inventory valuation and obsolescence	6,775	10,259
Others	(217)	(45)
Total adjustments to reconcile profit (loss)	5,665	24,731
Changes in operating assets and liabilities:		
Notes and accounts receivable	4,509	11,963
Inventories	34,355	(38,079)
Other financial assets and other current assets	1,332	(525)
Financial assets at fair value through profit or loss	(37,000)	-
Other non-current assets	(430)	3,980
Total changes in operating assets	2,766	(22,661)
Accounts payable	(17,342)	(5,999)
Other payables, other financial liabilities and current liabilities	(5,533)	5,781
Total changes in operating liabilities	(22,875)	(218)
Total changes in operating assets and liabilities	(20,109)	(22,879)
Total adjustments	(14,444)	1,852
Cash (outflow) inflow generated from operations	(11,552)	41,893
Interest received	5,841	3,813
Dividends received	12,485	8,110
Interest paid	(591)	(608)
Income taxes paid	(181)	(68)
Net cash flows from operating activities	6,002	53,140
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(30,660)	-
Acquisition of property, plant and equipment	(669)	(5,834)
Acquisition of intangible assets	(1,843)	(5,911)
Net cash flows used in investing activities	(33,172)	(11,745)
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(1,041)	(1,024)
Cash dividends paid	(38,524)	-
Exercise of employee share options	4,531	-
Net cash flows used in financing activities	(35,034)	(1,024)
Net (decrease) increase in cash and cash equivalents	(62,204)	40,371
Cash and cash equivalents at beginning of period	543,261	502,890
Cash and cash equivalents at end of period	\$ 481,057	543,261

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

PROLIFIC TECHNOLOGY INC. 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) Company history

Prolific Technology Inc. (“The Company”) was established with the approval of the Ministry of Economic Affairs in November 1997. The registered address is 7F., No. 48, Sec. 3, Nangang Rd., Nangang Dist., Taipei City. The Company and its subsidiaries included in the consolidated financial statements (“the Group”), which major business activities are the research and development of the integrated circuits, design and sales of the related products agent.

(2) Approval date and procedures of the consolidated financial statements:

These consolidated financial statements were authorized for issue by the board of directors on March 5, 2024.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2023:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The Group has initially adopted the following new amendment, which do not have a significant impact on its consolidated financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform—Pillar Two Model Rules”

- (b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IAS21 “Lack of Exchangeability”

(4) Summary of material accounting policies:

The material accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter, referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

- (b) Basis of preparation

- (i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of the plan assets less the present value of the defined benefit obligation.

- (ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company’s functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity when it is exposed to, 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.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Principal activity	Shareholding	
			December 31, 2023	December 31, 2022
The Company	PROLIFIC TECHNOLOGY (H.K.) LIMITED (Prolific HK)	Information electronic products trading	100.00 %	100.00 %

(d) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in a foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for investments in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(g) Financial instruments

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI); or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivables, other receivables, guarantee deposit paid and other financial assets).

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group measures loss allowances at an amount equal to lifetime expected credit loss, except for the following which are measured as 12-month ECL :

- Debt securities that are determined to have low credit risk at the reporting date ; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group's historical experience and informed credit assessment as well as forward-looking information.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data :

- significant financial difficulty of the borrower or issuer ;
- a breach of contract such as a default or being more than 120 days past due ;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Financial liabilities

Financial liabilities are classified as measured at FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less, the estimated costs of completion and selling expenses.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- 1) Buildings: 30~45 years
- 2) Leasehold improvement: 3~10 years
- 3) Molding equipment: 1~2 years

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Research and development equipment: 3~5 years

5) Office and other equipment: 3~5 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

(k) Leases

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the customer has the right to direct the use of the asset only if either:
 - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

If an arrangement contains lease and non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Group has elected not to recognize right-of-use assets and lease liabilities that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(l) Intangible assets

(i) Research and Development

The research phase refers to the activities intended to acquire and understand new scientific or technical knowledge. The expenditure on research activities is recognized in profit or loss as incurred.

If the expenditure of the development stage meets all the following conditions at the same time, it is recognized as intangible assets; If not, it shall be recognized in profit and loss as it occurs:

- 1) The technical feasibility of completing the intangible asset has been reached, which will make the intangible asset available for use or sale.
- 2) Intends to complete the intangible asset and use or sell it.
- 3) Having the ability to use or sell the intangible asset.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 4) Intangible assets will be very likely to produce future economic benefits.
- 5) Having sufficient technical, financial and other resources to complete the development and to use or sell the intangible assets.
- 6) The expenditure attributable to the development stage of the intangible asset can be measured reliably.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

- | | |
|---|------------|
| 1) Technology licensing fee and specialized technology: | 3~5 years |
| 2) Computer software: | 3~5 years |
| 3) Patent: | 5~20 years |

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, and deferred tax assets and assets arising from employee benefits) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Revenue recognition

Revenue from contracts with customers is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Group does not expect to have any contracts when the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Defined benefit plans

A benefit plan that is not a defined contribution plan is a defined benefit plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Remeasurements of the net defined benefit liability (asset), which comprise 1) actuarial gains and losses; 2) the return on plan assets (excluding interest); 3) the effect of the asset ceiling (if any, excluding interest), are recognized in other comprehensive income, and accumulated in retained earnings within equity.

The Group recognizes gains and losses on the curtail or settlement of a defined benefit plan when the settlement occurs. Gains and losses on the curtail or settlement including changes in fair value of plan assets, changes in defined benefit obligations, any previously unrecognized related gains and losses, and prior service costs.

(iii) Short-term employee benefits

Short-term employee benefits is discounted to determine its present value, and are expensed as the related service is provided.

For short-term cash dividends or the expected payment amount under the dividend plan, a liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(p) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment.

Grant date of a share-based payment award is the date which the board of directors authorized the price and number of a new award.

(q) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities at the reporting date and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and at the time of the transaction (i) affects neither accounting nor taxable profits (losses) and (ii) does not give rise to equal taxable and deductible temporary differences;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized. Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

- 1) the same taxable entity; or
- 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

- (r) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. Diluted earnings per share are calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

In preparation these consolidated financial statements, management has made judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The Group is likely to be facing economic uncertainty, such as COVID-19, natural disasters, the Ukraine-Russia conflict and inflation. Those events do not have a significant impact on the accounting estimates.

There is no significant judgment is involved in the accounting policies adopted in this consolidated financial report. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows.

- (a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Group's finance department personnel responsible for independent fair value validation, by independent sources of information to make the evaluation results close to the market status, confirm the source of independent, reliable, consistent with other resources. It also on behalf of the executable price, regularly update calibration evaluation model, evaluation of the required input value and the fair value of data and any necessary adjustment, ensure that the evaluation results are reasonable.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date. Please refer to note 6(t) for assumptions used in measuring fair value.

(6) Explanation of significant accounts:

- (a) Cash and cash equivalents

	December 31, 2023	December 31, 2022
Cash on hand and demand deposits	\$ 63,752	114,358
Time deposits	369,243	399,903
Bonds acquired under repurchase agreement	<u>48,062</u>	<u>29,000</u>
Cash and cash equivalents in consolidated statement of cash flows	<u>\$ 481,057</u>	<u>543,261</u>

- (i) Please refer to note 6(t) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.
- (ii) The series of bank certificates of deposit of the Group which are the pledged deposits are reported in other financial assets. In addition, the time deposits listed above are bank time deposits which original maturity date is less than one year. They can be converted into fixed cash at any time with a low risk of change in value.

- (b) Current financial assets at fair value through profit or loss

	December 31, 2023	December 31, 2022
Mandatorily measured at fair value through profit or loss:		
Open end Funds	<u>\$ 37,260</u>	<u>-</u>

- (i) Please refer to note 6(t) for the information on credit risk and market risk.
- (ii) The financial assets of the Group were not pledged as collateral.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Non-current financial assets at fair value through other comprehensive income

	December 31, 2023	December 31, 2022
Equity investments at fair value through other comprehensive income:		
Listed common shares	\$ 230,560	134,395
Emerging stocks	65,875	42,150
Unlisted common shares	<u>31,752</u>	<u>48,139</u>
	<u>\$ 328,187</u>	<u>224,684</u>

- (i) The Group designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for the long term strategic purposes.
- (ii) In order to strengthen the strategic placement, the Group invested an additional \$30,660 thousand in ordinary shares of Kelvin Thermal Technologies, Inc. on January 19, 2023.
- (iii) There were no disposals of strategic investments and transfers of any cumulative gain or loss within equity relating to these investments during 2023 and 2022. The unrealized gain on valuation in the years of 2023 and 2022 are \$72,843 thousand and \$5,277 thousand respectively and are include in other comprehensive income.
- (iv) Please refer to Note 6 (t) for the information on credit risk and market risk.
- (v) The financial assets mentioned above were not pledged as collateral.

(d) Notes and accounts receivable

	December 31, 2023	December 31, 2022
Notes receivable	\$ 2,536	3,658
Accounts receivable	40,596	43,983
Less: Loss allowance	<u>(15)</u>	<u>(25)</u>
	<u>\$ 43,117</u>	<u>47,616</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision was determined as follows:

	December 31, 2023		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	<u>\$ 43,132</u>	0.04%	<u>15</u>
	December 31, 2022		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	\$ 46,063	0.04%	20
1 to 30 days past due	1,578	0.35%	5
	<u>\$ 47,641</u>		<u>25</u>

The movements in the allowance for notes and accounts receivable were as follows:

	2023	2022
Balance at January 1	\$ 25	49
Impairment losses reversed	(10)	(24)
Balance at December 31	<u>\$ 15</u>	<u>25</u>

The aforementioned notes and accounts receivables of the Group had not been pledged as collateral as of December 31, 2023 and 2022.

(e) Inventories

	December 31, 2023	December 31, 2022
Raw materials and consumables	\$ 5,602	5,457
Work in progress	28,437	65,502
Finished and merchandise	40,367	44,577
	<u>\$ 74,406</u>	<u>115,536</u>

As of December 31, 2023 and 2022, the Group did not provide any inventories as collateral for its loans.

In 2023 and 2022, the write-down of inventories amounted to \$6,775 thousand and \$10,259 thousand are included in cost of sales.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2023 and 2022 were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Molding equipment</u>	<u>Research and development equipment</u>	<u>Office and other equipment</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2023	\$ 30,337	145,313	7,794	10,243	1,358	195,045
Additions	-	-	-	669	95	764
Disposal	-	-	(7,794)	(790)	(450)	(9,034)
Balance on December 31, 2023	<u>\$ 30,337</u>	<u>145,313</u>	<u>-</u>	<u>10,122</u>	<u>1,003</u>	<u>186,775</u>
Balance on January 1, 2022	\$ 30,337	145,024	7,794	4,161	1,498	188,814
Additions	-	289	-	6,082	86	6,457
Disposal	-	-	-	-	(226)	(226)
Balance on December 31, 2022	<u>\$ 30,337</u>	<u>145,313</u>	<u>7,794</u>	<u>10,243</u>	<u>1,358</u>	<u>195,045</u>
Depreciation and impairments loss:						
Balance on January 1, 2023	\$ -	85,714	7,794	3,831	1,163	98,502
Depreciation	-	2,521	-	2,536	94	5,151
Disposal	-	-	(7,794)	(790)	(450)	(9,034)
Balance on December 31, 2023	<u>\$ -</u>	<u>88,235</u>	<u>-</u>	<u>5,577</u>	<u>807</u>	<u>94,619</u>
Balance on January 1, 2022	\$ -	83,241	3,755	2,003	1,122	90,121
Depreciation	-	2,473	4,039	1,828	267	8,607
Disposal	-	-	-	-	(226)	(226)
Balance on December 31, 2022	<u>\$ -</u>	<u>85,714</u>	<u>7,794</u>	<u>3,831</u>	<u>1,163</u>	<u>98,502</u>
Carrying amounts:						
Balance on December 31, 2023	<u>\$ 30,337</u>	<u>57,078</u>	<u>-</u>	<u>4,545</u>	<u>196</u>	<u>92,156</u>
Balance on December 31, 2022	<u>\$ 30,337</u>	<u>59,599</u>	<u>-</u>	<u>6,412</u>	<u>195</u>	<u>96,543</u>

As of December 31, 2023 and 2022, the property, plant and equipment of the Group had not been pledged as collateral.

(g) Right-of-use assets

Information about land leases for which the Group is a lessee was presented below:

	<u>Land</u>
Cost:	
Balance at January 1, 2023 (the same as ending balance)	<u>\$ 41,014</u>
Balance at January 1, 2022	<u>\$ 40,847</u>
Additions	<u>167</u>
Balance at December 31, 2022	<u>\$ 41,014</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>
Accumulated depreciation and impairment losses:	
Balance at January 1, 2023	\$ 5,136
Depreciation for the year	<u>1,270</u>
Balance at December 31, 2023	<u>\$ 6,406</u>
Balance at January 1, 2022	\$ 3,867
Depreciation for the year	<u>1,269</u>
Balance at December 31, 2022	<u>\$ 5,136</u>
Carrying amount:	
Balance at December 31, 2023	<u>\$ 34,608</u>
Balance at December 31, 2022	<u>\$ 35,878</u>

(h) Investment property

The information about the investment property was presented below:

	<u>Owned property</u>		
	<u>Land</u>	<u>Buildings and constructions</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2023 (the same as ending balance)	<u>\$ 30,337</u>	<u>71,315</u>	<u>101,652</u>
Balance at January 1, 2022 (the same as ending balance)	<u>\$ 30,337</u>	<u>71,315</u>	<u>101,652</u>
Accumulated depreciation:			
Balance at January 1, 2023	\$ -	31,170	31,170
Depreciation for the year	<u>-</u>	<u>1,767</u>	<u>1,767</u>
Balance at December 31, 2023	<u>\$ -</u>	<u>32,937</u>	<u>32,937</u>
Balance at January 1, 2022	\$ -	29,404	29,404
Depreciation for the year	<u>-</u>	<u>1,766</u>	<u>1,766</u>
Balance at December 31, 2022	<u>\$ -</u>	<u>31,170</u>	<u>31,170</u>
Carrying amount:			
Balance at December 31, 2023	<u>\$ 30,337</u>	<u>38,378</u>	<u>68,715</u>
Balance at December 31, 2022	<u>\$ 30,337</u>	<u>40,145</u>	<u>70,482</u>
Fair value:			
Balance at December 31, 2023			<u>\$ 232,331</u>
Balance at December 31, 2022			<u>\$ 204,124</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (i) Investment property comprises a number of commercial properties that are leased to third parties. Please refer to Note 6(j) for the information of the rental revenue and the direct operating expenses incurred. In addition, the Group classify the investment property based on the use of the assets.
- (ii) The fair value of the investment property listed above shall be determined by the administrative authority with reference to the latest transaction price in the vicinity of the location of the individual investment real estate, or to the property of the expected return value remit total cash flow. As reflecting the net cash flow on the yield of the specific risk discount to determine the value of the investment property, the fair value belongs to the third grade.
- (iii) As of December 31, 2023 and 2022, the investment property of the Group had not been pledged as collateral.

(i) Intangible assets

The cost and amortization of the intangible assets of the Group for the years ended December 31, 2023 and 2022, were as follows:

	Intellectual property and specialized technology cost	Computer software	Patent	Total
Cost:				
Balance at January 1, 2023	\$ 148,159	105,509	10,365	264,033
Additions	2,500	843	-	3,343
Reduction	<u>(16,063)</u>	<u>-</u>	<u>-</u>	<u>(16,063)</u>
Balance at December 31, 2023	<u>\$ 134,596</u>	<u>106,352</u>	<u>10,365</u>	<u>251,313</u>
Balance at January 1, 2022	\$ 143,874	102,789	10,365	257,028
Additions	<u>4,285</u>	<u>2,720</u>	<u>-</u>	<u>7,005</u>
Balance at December 31, 2022	<u>\$ 148,159</u>	<u>105,509</u>	<u>10,365</u>	<u>264,033</u>
Accumulated amortization and impairment losses:				
Balance at January 1, 2023	\$ 144,632	103,064	9,511	257,207
Amortization for the year	1,524	1,236	335	3,095
Disposal	<u>(13,920)</u>	<u>-</u>	<u>-</u>	<u>(13,920)</u>
Balance at December 31, 2023	<u>\$ 132,236</u>	<u>104,300</u>	<u>9,846</u>	<u>246,382</u>
Balance at January 1, 2022	\$ 142,576	100,246	9,097	251,919
Amortization for the year	<u>2,056</u>	<u>2,818</u>	<u>414</u>	<u>5,288</u>
Balance at December 31, 2022	<u>\$ 144,632</u>	<u>103,064</u>	<u>9,511</u>	<u>257,207</u>
Carrying amount:				
Balance at December 31, 2023	<u>\$ 2,360</u>	<u>2,052</u>	<u>519</u>	<u>4,931</u>
Balance at December 31, 2022	<u>\$ 3,527</u>	<u>2,445</u>	<u>854</u>	<u>6,826</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Amortization

The amortization of intangible assets and their impairment losses are included in the statement of comprehensive income:

	<u>2023</u>	<u>2022</u>
Operating expenses	<u>\$ 3,095</u>	<u>5,288</u>

(ii) Assurance

As of December 31, 2023 and 2022, the investment property of the Group had not been pledged as collateral.

(j) Lease liabilities

The carrying amount of lease liabilities of the Group were as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current	<u>\$ 1,058</u>	<u>1,041</u>
Non-current	<u>\$ 34,874</u>	<u>35,932</u>

For the maturity analysis, please refer to note 6(t) "financial instruments".

The amounts recognized in profit or loss was as follows:

	<u>2023</u>	<u>2022</u>
Interest on lease liabilities	<u>\$ 591</u>	<u>608</u>
Expenses relating to short-term leases	<u>\$ 1,175</u>	<u>1,286</u>

The amounts recognized in the statement of cash flows by the Group were as follows:

	<u>2023</u>	<u>2022</u>
Total cash outflow for leases	<u>\$ 2,807</u>	<u>2,918</u>

(k) Operating lease

The Group leases out its investment property. The Group has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	December 31, 2023	December 31, 2022
Less than one year	\$ 16,624	10,606
One to five years	14,174	13,954
Total undiscounted lease payments	<u>\$ 30,798</u>	<u>24,560</u>

Rental income from investment properties was \$15,161 thousand and \$14,647 thousand in 2023 and 2022, respectively (Depreciation and other necessary expenses have been deducted).

(l) Employee benefits

(i) Defined benefit plans

Reconciliation of defined benefit obligation at present value and plan asset at fair value are as follows:

	December 31, 2023	December 31, 2022
Present value of the defined benefit obligations	\$ 20,294	17,899
Fair value of plan assets	(31,050)	(30,226)
Net defined benefit assets	<u>\$ (10,756)</u>	<u>(12,327)</u>

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$31,050 thousand as of December 31, 2023. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Movements in the present value of the defined benefit obligations

The movement in present value of the defined benefit obligations for the Company were as follows:

	2023	2022
Defined benefit obligations at January 1	\$ 17,899	18,341
Current service costs and interest cost	318	123
Remeasurements loss (gain)	<u>2,077</u>	<u>(565)</u>
Defined benefit obligations at December 31	<u>\$ 20,294</u>	<u>17,899</u>

3) Movements of the defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

	2023	2022
Fair value of plan assets at January 1	\$ 30,226	27,653
Contributions paid by the employer	181	181
Interest income	566	193
Remeasurements loss (gain)		
- Return on plan assets excluding interest income	<u>77</u>	<u>2,199</u>
Fair value of plan assets at December 31	<u>\$ 31,050</u>	<u>30,226</u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	2023	2022
Current service costs	\$ -	-
Net interest of net assets for defined benefit obligations	<u>(248)</u>	<u>(70)</u>
	<u>\$ (248)</u>	<u>(70)</u>
Administration expenses	<u>\$ (248)</u>	<u>(70)</u>

5) Remeasurements (loss) gain recognized in other comprehensive income

The remeasurements (loss) gain recognized in other comprehensive income for the Company were as follows:

	2023	2022
Accumulated amount at January 1	\$ 6,591	3,827
Recognition for the years	<u>(2,000)</u>	<u>2,764</u>
Accumulated amount at December 31	<u>\$ 4,591</u>	<u>6,591</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	<u>2023</u>	<u>2022</u>
Discount rate	1.625 %	2.000 %
Future salary increase rate	3.000 %	3.000 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is \$4,485 thousand.

The weighted-average lifetime of the defined benefits plans is 14.42 years.

7) Sensitivity analysis

As of December 31, 2023, the Company's net defined benefit assets was \$10,756 thousand. If the discount rate changes in 0.25%, the net defined benefit will decreased by \$477 thousand or increased by \$492 thousand, respectively. If the future salary increase rate changes in 0.25%, the net defined benefit will increased by \$475 thousand or decreased by \$462 thousand, respectively.

There is no change in the method and assumptions used in the preparation of the sensitivity analysis for 2023 and 2022.

(ii) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of the Labor Insurance amounted to \$4,419 thousand and \$4,224 thousand for the years ended December 31, 2023 and 2022, respectively.

(m) Income taxes

(i) The components of income tax in the years 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Current tax expense	\$ -	-

(ii) There were no income tax recognized directly in equity or other comprehensive income in 2023 and 2022.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Reconciliation of income tax and profit before tax for 2023 and 2022 is as follows:

	2023	2022
Profit excluding income tax	\$ 2,892	40,041
Income tax using the Company's domestic tax rate	557	8,012
Tax effect of permanent differences	(2,549)	(1,717)
Recognition of previously unrecognized tax losses	-	(6,639)
Change in unrecognized deferred tax asset and others	1,992	344
	<u>\$ -</u>	<u>-</u>

(iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2023	December 31, 2022
Tax effect of deductible Temporary Differences	\$ 7,813	6,977
The carryforward of unused tax losses	81,671	84,326
	<u>\$ 89,484</u>	<u>91,303</u>

a) The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. As of December 31, 2023, the information of the Group's unused tax losses for which no deferred tax assets were recognized are as follows:

Company name	Year of loss	Unused tax loss	Expiry date
The Company	2013(approved amount)	\$ 19,879	2023
"	2014(approved amount)	155,577	2024
"	2015(approved amount)	74,085	2025
"	2016(approved amount)	75,607	2026
"	2017(approved amount)	99,408	2027
"	2018(approved amount)	48,140	2028

b) The above unrecognized deferred tax assets are not recognized because the management authority has assessed that it is not probable to generate sufficient taxable income in the future.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2023 and 2022 were as follows:

	<u>Tax losses</u>	<u>Unrealized exchange gain (loss)</u>	<u>Total</u>
Deferred tax assets:			
Balance on January 1, 2023	\$ (13,199)	17	(13,182)
Recognized in profit or loss	<u>331</u>	<u>(331)</u>	<u>-</u>
Balance on December 31, 2023	<u><u>\$ (12,868)</u></u>	<u><u>(314)</u></u>	<u><u>(13,182)</u></u>
Balance on January 1, 2022	\$ (13,081)	(101)	(13,182)
Recognized in profit or loss	<u>(118)</u>	<u>118</u>	<u>-</u>
Balance on December 31, 2022	<u><u>\$ (13,199)</u></u>	<u><u>17</u></u>	<u><u>(13,182)</u></u>

(v) Assessment of tax

The Company's tax returns for the years through 2021 were assessed by the tax authority.

(n) Capital and other equity

(i) Ordinary shares

As of December 31, 2023 and 2022, the number of authorized ordinary shares were amounted to \$1,500,000 thousand, with par value of \$10 per share represents 150,000 thousand of ordinary shares. The issued shares of ordinary shares are 79,773 thousand shares and 79,610 thousand shares, respectively. All issued shares were paid up upon issuance. The Group issued 163 thousand of ordinary shares, in advance, which was exercised as employee stock option, at a total amount of \$4,531 thousand that been paid upon issuance. As of December 31, 2023, the relevant statutory registration procedures have yet to be completed.

(ii) Capital surplus

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Share capital	\$ 113,908	113,908
Employee share options	20,576	14,800
Donation from shareholders	<u>373</u>	<u>373</u>
	<u><u>\$ 134,857</u></u>	<u><u>129,081</u></u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

The Company's article of incorporation stipulates that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

The company is the technology industry, currently in the operating growth stage. In order to consider the company's future capital expenditure budget and cash requirements, the annual cash dividend payable shall not be less than 10% of the total cash dividend and stock dividend.

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of the capital may be distributed.

2) Special reserve

A portion of earnings shall be allocated as special reserve during earnings distribution. A portion of undistributed prior-period earnings shall be reclassified to special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to the net reduction of other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Appropriations of earnings for 2022 and 2021 had been approved during the shareholders' meeting on June 7, 2023 and June 8, 2022, respectively. The relevant dividend distributions to shareholders of 2022 was as follows. Since the operating results of 2021 is accumulated deficit, no earnings distribution was planned. The shareholders' meeting on June 8, 2022 had approved to use capital surplus to offset accumulated deficits amounting to \$186,499 thousand.

	2022	
	Amount per share	Amount
Dividend distributions to ordinary shareholders		
Cash	\$ 0.4839	\$ <u><u>38,524</u></u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(o) Share-based payment

- (i) In order to attract and retain important talents and increase employees' commitment to the Company, the Company issued 3,200 thousand units of employee options approved by the competent authority in the year of 2021. Each unit was entitled to subscribe for one common share, the Company issued new shares for delivery as the way of performance. The employee stock options certificate has been issued for the entire quantity. The duration of the employee stock options is five years. The cumulative proportion of shares exercisable by the holder in each year after the expiration of the employee warrants granted shall be as follows, and shall not be transferred, pledged, gifted or disposed of by any other means to third parties during the custody period, except for the successor.

<u>The period during which the options were granted</u>	<u>The year the options were issued 2021</u>
Exercisable in two years	30%
Exercisable in three years	60%
Exercisable in four years	100%

According to the employee warrants issue and share subscription method, the Company shall submit relevant documents to the competent authority to apply for registration of capital change after the new shares issue; the registration of changes in the amount of previously disclosed capital shall be done at least once a quarter.

- (ii) Details of the employee stock options are as follows:

	<u>2023</u>		<u>2022</u>	
(in thousands)	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>
Outstanding at January 1	\$ 28.25	3,200	28.25	3,200
Forfeited during the year (number)	-	-	-	-
Exercised during the year (number)	27.80	(163)	-	-
Expired during the year (number)	-	-	-	-
Outstanding at December 31	27.80(Note)	<u>3,037</u>	28.25	<u>3,200</u>
Exercisable at December 31	-	<u>797</u>	-	-
Weighted average price of the stock options		<u>\$ 7.32</u>		<u>7.32</u>

(Note) The employee stock option execution price is adjusted in accordance with the employee stock option issuance method.

The details of the share options of the Company were as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Weighted average of remaining contractual period (years)	2.33 year	3.33 year

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iii) The Company used Black-Scholes Option pricing model in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

	2021
Exercise price (NT dollars)	28.25
Share price at grant date (NT dollars)	28.25
Expected dividend (%)	-
Expected volatility (%)	39.6%~54.98%
Risk-free interest rate (%)	0.85%~0.865%
Expected life (years)	5 years

- (iv) In 2023 and 2022, the expenses attributable to share-based payment amounted to \$5,776 thousand and \$8,880 thousand, respectively.

- (v) The Company plans to set up a scheme that would benefit both itself and its shareholders. In addition, in order to motivate its employees and enhance their centripetal force, a resolution was approved during the shareholders' meeting held on June 7, 2023 to issue restricted new shares for qualified employees. The number of shares to be issued is 2,000 thousand shares, with a par value of \$10 per share, and a total issuance of \$20,000 thousand. The declaration has been approved by the Financial Supervisory Commission and has become effective on July 27, 2023. However, the above mentioned restricted new shares have yet to be issued as of December 31, 2023.

- (p) Earnings per share

The details on the calculation of basic earnings per share and diluted earnings per share were as follows:

	2023	2022
Basic earnings per share		
Profit of the Company for the year	\$ 2,892	40,041
Weighted-average number of ordinary shares (thousand shares)	79,610	79,610
Basic earnings per share	\$ 0.04	0.50
Diluted earnings per share		
Profit of the Company for the year	\$ 2,892	40,041
Weighted-average number of ordinary shares (thousand shares)	79,610	79,610
Effect of dilutive potential ordinary shares:		
Estimated employee remuneration considered as issued shares	37	222
Employee share options	821	-
Weighted-average number of ordinary shares (diluted)	80,468	79,832
Diluted earnings per share	\$ 0.04	0.50

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2023</u>	<u>2022</u>
Primary geographical markets		
Taiwan	\$ 131,007	160,635
Hong Kong	123,230	136,676
Thailand	39,911	61,902
Others	<u>66,374</u>	<u>79,110</u>
	<u><u>\$ 360,522</u></u>	<u><u>438,323</u></u>
Major products/services lines		
Digital system application products	\$ 229,808	269,159
MEMS integrated application products	130,529	166,877
Others	<u>185</u>	<u>2,287</u>
	<u><u>\$ 360,522</u></u>	<u><u>438,323</u></u>

(ii) Contract balances

For details on accounts receivable and allowance for impairment, please refer to note 6(d).

(r) Employee compensation and directors' remuneration

According to the Articles of Association, once the Company has annual profit, it should appropriate no less than 6% of the profit as employee compensation and 2% or less as directors' remuneration. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees and directors of each period, multiplied by the percentage of remuneration to employees and directors as specified in the Company's articles. These remunerations were expensed under operating expenses. If there is a discrepancy between the actual distribution amount and the estimated amount in the next year, it will be treated as a change in accounting estimate, and the difference will be recognized as profit or loss for the next year. For the year ended December 31, 2023 and 2022, the Group estimated its employee remuneration amounting to \$101 thousand and \$4,529 thousand, respectively, and directors' remuneration amounting to \$16 thousand and \$725 thousand, respectively. Related information would be available at the Market Observation Post System website. The Company considered the difference of \$16 thousand between the estimated and actual amount in the 2023 directors' remuneration as changes in accounting estimates and had been recognized as profit or loss in 2024. The employee remuneration in 2023, as well as both the employee and directors' remuneration in 2022, as stated in the consolidated financial statements, were identical to those of the actual distribution amounts for 2023 and 2022.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Non-operating income and expenses

(i) Other income

The other income for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Rent income, net	\$ 15,161	14,647
Dividend income	12,485	8,110
Others	1,094	1,134
	<u>\$ 28,740</u>	<u>23,891</u>

(ii) Other gains and losses

The other gains and losses for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Foreign exchange gains net	\$ 1,496	14,126
Others	38	(196)
	<u>\$ 1,534</u>	<u>13,930</u>

(t) Financial instruments

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, which arises from the Group's accounts receivable and security investments.

1) Accounts receivable and other receivables

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. These criterias are reviewed periodically.

2) Investment

The credit risk exposure in bank deposits, fixed-income investment, and other financial instruments is measured and monitored by the Group's finance department. As the Group deals with banks and other external parties with good credit standing and with financial institutions, corporate organizations, and government agencies which are graded above investment level, the management believes their counterparts do not have significant default risk, therefore, the credit risk is insignificant.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Other information about credit risk was as follows:

3) Credit risk exposure

As of December 31, 2023 and 2022, the carrying amount of financial assets, which represents the maximum amount exposed to credit risk, was \$897,863 thousand and \$824,537 thousand, respectively.

The Group's credit risk is mainly affected by the credit characteristics of each creditor. This is also an impact on credit risk from the business of the customer. As of December 31, 2023 and 2022, are both 83% of the ending balance of accounts receivable arose from sales to individual customers constituting the top ten customers.

4) For details on accounts receivable and allowance for impairment, please refer to note 6(d).

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities:

- 1) Based on the date on which the Group may be required to make an early repayment and on the preparation of the financial liabilities' undiscounted cash flows, including estimated interest payments and excluding the impact of netting agreements.
- 2) Derivatives for net settlement are prepared on the basis of undiscounted contractual net cash inflows and outflows; derivatives for gross settlement are prepared on the basis of undiscounted total cash inflows and outflows.

	Carrying amount	Contractual cash flows	Within 6 months	6 ~ 12 months	1 ~ 2 years
December 31, 2023					
Non-derivative financial liabilities:					
Accounts payable	\$ 24,984	24,984	24,984	-	-
Other payables (included non-current)	1,600	1,600	100	1,500	-
Other financial liabilities	6,948	6,948	6,948	-	-
Lease liabilities (included non-current)	35,932	44,469	816	816	42,837
	<u>\$ 69,464</u>	<u>78,001</u>	<u>32,848</u>	<u>2,316</u>	<u>42,837</u>
December 31, 2022					
Non-derivative financial liabilities:					
Accounts payable	\$ 42,326	42,326	42,326	-	-
Other payables (included non-current)	2,961	2,961	2,961	-	-
Other financial liabilities	12,701	12,701	12,701	-	-
Lease liabilities (included non-current)	36,973	46,101	816	816	44,469
	<u>\$ 94,961</u>	<u>104,089</u>	<u>58,804</u>	<u>816</u>	<u>44,469</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Group does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group's significant exposure to foreign currency risk was as follows:

	December 31, 2023				December 31, 2022		
	Foreign currency	Exchange rate	NTD		Foreign currency	Exchange rate	NTD
Financial assets							
Monetary items							
USD	\$	2,489	30.66	76,298	4,241	30.66	130,039
Financial liabilities							
Monetary items							
USD		148	30.76	4,566	756	30.76	23,245

The Group's exposure to currency risk arises from the translation of the foreign currency exchange gains and losses on cash, accounts receivable and accounts payable that are denominated in foreign currency. The weakening or strengthening of 10% on the above-mentioned foreign currency against the New Taiwan Dollar would have increase or decrease the net profit before tax for the years ended December 31, 2023 and 2022 by \$7,173 thousand and \$10,679 thousand, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the two periods.

The exchange gains and losses (both realized and unrealized) of the monetary items of the Group into functional currency and the exchange rate converted to the functional currency of the parent company, New Taiwan Dollar (i.e., the expression currency of the combined Company), are as follows:

	2023		2022	
	Exchange gains	Average exchange rate	Exchange gains	Average exchange rate
NTD	\$ 1,496	1	14,126	1

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Interest rate risk

The details of financial instruments exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2023	December 31, 2022
Fixed-rate instruments:		
Financial assets	\$ <u>223,462</u>	<u>235,060</u>
Variable-rate instruments:		
Financial assets	\$ <u>263,956</u>	<u>314,564</u>

The following sensitivity analysis is based on the exposure to interest rate risk of the derivative and non-derivative financial instruments on the reporting date. If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by \$660 thousand and \$786 thousand for the years ended December 31, 2023 and 2022, respectively, assuming all other variable factors were constant.

In addition, the Group's financial assets with fixed interest rate are measured at amortized cost. The profit and loss of financial instruments are unaffected by fluctuations in interest rate on the reporting date, therefore, no sensitivity analysis has been disclosed.

3) Other market price risk

If the price of the securities fluctuates on the reporting date (the sensitivity analyses for the changes in the securities price at the reporting date were performed using the same basis for the profit and loss), the impact on the consolidated income items are as follows:

	For the years ended December 31,			
	2023		2022	
Prices of securities at the reporting date	Other comprehensive income after tax	Net income	Other comprehensive income after tax	Net income
Increasing 10%	\$ <u>23,056</u>	<u>3,726</u>	<u>13,440</u>	<u>-</u>
Decreasing 10%	\$ <u>(23,056)</u>	<u>(3,726)</u>	<u>(13,440)</u>	<u>-</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Fair value of financial instruments

1) Fair value hierarchy

The Group's financial assets and liabilities measured at fair value through profit and loss, financial assets and liabilities for hedging and financial assets measured at fair value through other comprehensive income are measured at fair value on a recurring basis. The carrying amount and fair value of various types of financial assets and liabilities (including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required) are listed as follows:

		December 31, 2023			
		Fair value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through other income					
Open end Funds	\$ <u>37,260</u>	<u>37,260</u>	<u>-</u>	<u>-</u>	<u>37,260</u>
Financial assets at fair value through other comprehensive income					
Listed domestic stocks	\$ 230,560	230,560	-	-	230,560
Emerging stocks	65,875	-	65,875	-	65,875
Non-quoted equity instruments measured at fair value	<u>31,752</u>	<u>-</u>	<u>-</u>	<u>31,752</u>	<u>31,752</u>
Subtotal	<u>\$ 328,187</u>	<u>230,560</u>	<u>65,875</u>	<u>31,752</u>	<u>328,187</u>
Financial assets measured at amortized cost					
Cash and cash equivalent	\$ 481,057				
Notes and accounts receivable	43,117				
Other current financial assets	<u>8,242</u>				
Subtotal	<u>\$ 532,416</u>				
Financial liabilities measured at amortized cost					
Accounts payable	\$ 24,984				
Other payables (including non-current)	1,600				
Other financial liabilities	6,948				
Lease liabilities (including non-current)	<u>35,932</u>				
Subtotal	<u>\$ 69,464</u>				

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2022					
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Listed domestic stocks	\$ 134,395	134,395	-	-	134,395
Emerging stocks	42,150	-	42,150	-	42,150
Non-quoted equity instruments measured at fair value	48,139	-	-	48,139	48,139
Subtotal	<u>\$ 224,684</u>	<u>134,395</u>	<u>42,150</u>	<u>48,139</u>	<u>224,684</u>
Financial assets measured at amortized cost					
Cash and cash equivalent	\$ 543,261				
Notes and accounts receivable	47,616				
Other current financial assets	8,976				
Subtotal	<u>\$ 599,853</u>				
Financial liabilities measured at amortized cost					
Accounts payable	\$ 42,326				
Other payables (including non-current)	2,961				
Other financial liabilities	12,701				
Lease liabilities (including non-current)	36,973				
Subtotal	<u>\$ 94,961</u>				

2) Valuation techniques for financial instruments measured at fair value

If the financial instruments have a quoted price in an active market, the fair value should be determined on that price. The price quoted in major exchanges and over the counter trading are all considered basis for fair value determination for listed equity instruments.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The financial instruments held by the Group are distinguished according to the evaluation sources used to determine its fair value as follows:

- Financial instruments with an active market: including listed company stocks and fund beneficiary certificates, etc. The fair value of these instruments is determined by reference to their respective market quotes.
- Financial instruments without active market: Fair value is based on valuation techniques or reference counterparty quotes. The fair value obtained through evaluation techniques can refer to the current fair value of other financial instruments with similar conditions and characteristics, discounted cash flow method or other evaluation techniques, including calculations based on market information available on the date of the consolidated balance sheet.

For financial instruments not traded in active markets, the Group takes the quote market prices and the price-book ratios of similar publicly traded companies into consideration by using the market comparison approach. The estimates had been adjusted by the depreciation from lack of market liquidity. The rest are based on the income approach, which adjusts the capitalization of economic benefits within a specific period to reflect the reasonable value of the enterprise.

3) Transfers between Level 2 and Level 3

The Group holds an investment in equity shares of Arch Meter Corporation, which is classified as fair value through other comprehensive income. During November, 2022, the Group listed its equity shares and obtain Emerging Stock Market registration. Because the equity shares now have a published price quotation in an active market, the fair value measurement was transferred from Level 3 to Level 2 of the fair value hierarchy as of December 31, 2022. There were no transfers in 2023.

4) Reconciliation of Level 3 fair values

The changes in Level 3 fair values for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Opening balance	\$ 48,139	75,850
Purchased	30,660	-
Transfers out of Level 3	-	(29,647)
Recognized in other comprehensive income	(47,047)	1,936
Ending balance	<u>\$ 31,752</u>	<u>48,139</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value include "fair value through other comprehensive income – equity investments".

Most of the fair value classified as Level 3 are singular significant unobservable input value, except for equity investments without an active market, which has multiple significant unobservable input data. The significant unobservable input values of equity instruments without an active market are independent of each other, thus there are no correlation between them.

Quantified information on significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through other comprehensive income equity investments without an active market	Income Approach	Discount rate (as of December 31, 2023 and 2022 were 20.03% and 17.11%, respectively)	The higher the ratio, the lower the fair value

- 6) Fair value measurements in Level 3– sensitivity analysis of reasonably possible alternative assumptions

The method to derive at the fair value of financial instruments is reasonable but could yield different outcomes when using different multipliers. For fair value measurements in Level 3, changing one or more of the assumptions to reflect reasonably possible alternative assumptions would have the following effects:

	<u>Data</u>	<u>Increase or decrease</u>	<u>Other comprehensive income</u>	
			<u>Favour-able</u>	<u>Unfavour-able</u>
December 31, 2023				
Financial assets at fair value through other comprehensive income-equity investments without an active market	Discount rate	2%	\$ <u>3,285</u>	<u>(1,642)</u>
December 31, 2022				
Financial assets at fair value through other comprehensive income-equity investments without an active market	Discount rate	2%	\$ <u>3,131</u>	<u>(2,740)</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(u) Financial risk management

(i) Structure of risk management

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Board of Directors is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to The Group's Board of Directors.

(ii) The Group have exposures to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to Note 6(t) in the accompanying consolidated financial statements.

(v) Capital management

The Group's Board of Directors policy is to maintain a strong capital base to maintain the confidence of investors, creditors, and the market and to sustain future development of the business. The capital structure of the Group consists of ordinary share, capital surplus, retained earnings and non-controlling interests. As of December 31, 2023, the Group has sufficient capital to fund its working capital needs and research and development activities over the next 12 months, There were no changes in the Group's approach to capital management.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (w) Investing and financing activities not affecting current cash flow

The Group's reconciliation of liabilities arising from financing activities in the years ended December 31, 2023 and 2022, were as follows:

	January 1, 2023	Cash flows	Others	December 31, 2023
Lease liabilities	\$ <u>36,973</u>	<u>(1,632)</u>	<u>591</u>	<u>35,932</u>
	January 1, 2022	Cash flows	Others	December 31, 2022
Lease liabilities	\$ <u>37,829</u>	<u>(1,632)</u>	<u>776</u>	<u>36,973</u>

(7) Related-party transactions:

- (a) Parent company and ultimate controlling company

The Company is both the parent company and the ultimate controlling party of the Group.

- (b) Names and relationship with the Group

The followings are entities that have had transactions with related party during the periods covered in the consolidated financial statements:

Name of related party	Relationship with the Group
Provista Incorporation	The entity's chairman is the second immediate family of the chairman of the Company
Kelvin Thermal Technologies, Inc.	The Company is a director of the entity
Key management personnel	The Group's key management personnel

- (c) Key management personnel compensation

Key management personnel compensation comprised:

	2023	2022
Short-term employee benefits	\$ 9,743	13,733
Post-employment benefits	22	114
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	<u>632</u>	<u>971</u>
	<u>\$ 10,397</u>	<u>14,818</u>

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Significant transactions with related parties

The amounts of rental income generated from leasing office and provide accounting service by the Group to related parties and the details of receivable were as follows:

	Transaction amount		Other receivables from related parties	
	2023	2022	December 31, 2023	December 31, 2022
Other related parties	\$ <u>1,429</u>	<u>1,429</u>	<u>123</u>	<u>123</u>

The above-mentioned rental income is applicable to the calculation of the number of pings with reference to market conditions and is collected on a monthly basis.

(8) Pledged assets :

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2023	December 31, 2022
Restricted bank deposit (classified under “other current financial assets”)	Guarantee for purchase agreements	\$ 4,800	4,800
”	Guarantee for land lease	1,800	1,800
		<u>\$ 6,600</u>	<u>6,600</u>

(9) Significant contingent liabilities and unrecognized commitments:

Under a technical and patent licensing agreement with Industrial Technology Research Institute. Both parties agree on authorizing specific technical information and related patent licensing. The royalty payment counted at certain rates of sales revenue from related products.

(10) Losses Due to Major Disasters: None

(11) Subsequent Events: None

(12) Other:

A summary of employee benefits, depreciation, and amortization, by function, is as follows:

By item	2023			2022		
By function	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	-	101,142	101,142	-	105,952	105,952
Labor and health insurance	-	8,073	8,073	-	7,400	7,400
Pension	-	4,171	4,171	-	4,154	4,154
Remuneration of directors	-	5,416	5,416	-	5,645	5,645
Others	-	3,045	3,045	-	3,111	3,111
Depreciation (Note)	-	6,421	6,421	4,040	5,836	9,876
Amortization	-	3,095	3,095	-	5,288	5,288

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note: Exclude the depreciation expense of investment property. For the years ended December 31, 2023 and 2022, the depreciation expense of investment property are \$1,767 thousand and \$1,766 thousand, respectively, recognized as deduction of rental revenue.

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- (i) Loans to other parties: None
- (ii) Guarantees and endorsements for other parties: None
- (iii) Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	Highest	Ending balance				Note
				Percentage of ownership (%)	Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Stock:								
	Innodisk Corporation	None	Financial assets at fair value through other comprehensive income – non-current	0.84	739	\$ 230,560	0.84	230,560	
	Arch Meter Corporation	"	"	6.42	2,500	65,875	6.42	65,875	
	Kelvin Thermal Technologies, Inc.	Other related party	"	14.31	1,786	31,752	14.31	31,752	
"	Syndiant, Inc.	None	"	3.25	503	-	3.25	-	
						<u>\$ 328,187</u>			
The Company	JIH SUN MONEY MARKET FUND	None	Financial assets at fair value through profit or loss – current		1,653	\$ 25,217		25,217	
	FUBON CHI-HSIANG MONEY MARKET FUND	"	"		748	12,043		12,043	
						<u>\$ 37,260</u>			

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None

(Continued)

PROLIFIC TECHNOLOGY INC. AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ix) Trading in derivative instruments: None

(x) Business relationships and significant intercompany transactions: None

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2023:

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Highest Percentage of ownership	Balance as of December 31, 2023			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2023	December 31, 2022		Shares (thousands)	Percentage of ownership	Carrying value			
The Company	PROLIFIC TECHNOLOGY (H.K.) LIMITED (Prolific HK)	Hong Kong	Information electronic products trading	2,219	2,219	100.00 %	100	100.00 %	1,340	(104)	(104)	(Note)

Note: The aforementioned inter-company transactions have been eliminated in the consolidated financial statements.

(c) Information on investment in mainland China: None

(d) Major shareholders (only disclosure shareholders with ownership of 5 percent or greater):

Shareholder's Name	Shareholding	Shares	Percentage
Ching-Tang, Chang		7,264,442	9.11 %

Note 1: This Table provides the information of number of ordinary shares and special shares which were delivered through non physical registration (including treasury shares) owned by major shareholders with ownership of 5% or greater and was calculated by Taiwan Depository & Clearing Corporation using the last business day at the end of the quarter. There might be a difference between the share capital listed on the Group's financial statements and the actual number of shares delivered through non physical registration due to different basis of calculation.

Note 2: If the shareholder delivered the shares to the trust, the above information would be revealed by the individual trust account under fiduciary account opened by the trustee. As for the shareholders handled the insider ownership declarations with shareholdings over 10% in accordance with the Securities and Exchange Act, their shareholdings include the shares owned by themselves plus the shares delivered to the trust which they have the right on allocating the trust properties, please refer to the Market Observation Post System website for information about insider ownership declaration.

(14) Segment information:

(a) General information

The Group engages mainly in the research, design, and sales of integrated circuits. Therefore, the Group has single operating segment. For years ended December 31, 2023 and 2022 shares the same operating segments information with the consolidated statements.

(Continued)

PROLIFIC TECHNOLOGY INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Product and service information

Revenue from the external customers of the Group was follows:

Product	2023	2022
Digital system application products	\$ 229,808	269,159
MEMS integrated application products	130,529	166,877
Others	185	2,287
	\$ 360,522	438,323

(c) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets. The Group's non-current assets are all located in Asia.

Geographic information	2023	2022
Asia	\$ 360,311	434,627
Others	211	3,696
	\$ 360,522	438,323

(d) Major customers

The details of the Group's customers whose individual sales income accounted for more than 10% of the operating revenues on the consolidated income statement for the years ended December 31, 2023 and 2022 are as follows:

Customer	2023	
	Amount	%
2030051	\$ 69,686	19.33
2020026	44,445	12.33
	\$ 114,131	31.66

Customer	2022	
	Amount	%
2020026	\$ 65,788	15.01
2030051	64,441	14.70
2030046	48,674	11.10
	\$ 178,903	40.81