

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

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Independent Auditors' Report

To the Board of Directors Acer Gadget Inc.:

Opinion

We have audited the parent-company-only financial statements of Acer Gadget Inc. (the “Company”), which comprise the parent-company-only balance sheets as of December 31, 2023 and 2022, the parent-company-only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent-company-only financial statements, including a summary of material accounting policies.

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

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 Parent-Company-Only Financial Statements section of our report. We are independent of the Company 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 parent-company-only financial statements of the current period. These matters were addressed in the context of our audit of the parent-company-only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

1. Revenue recognition

Refer to Note 4(o) for the accounting policies on revenue recognition and Note 6(q) for related disclosures of revenue recognition, respectively, to the parent-company-only financial statements.

Description of key audit matter:

The Company deals with customers located in different geographic areas worldwide and has various trade terms with customers. Revenue is recognized at the timing of transferring control of goods to customers, which is identified based on each individual sale transaction and trade term. Therefore, revenue recognition has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures including, among others, testing the Company's internal controls over financial reporting in the sales and collection cycle; ensuring the correctness of the timing of revenue recognition through understanding of trade terms between the Company and its customers as well as performing a sample test of related transaction documents; performing analysis of revenue fluctuation of major customers and performing a sample test on sales transactions that took place before and after the balance sheet date to assess the accuracy of the timing of revenue recognition.

2. Valuation of inventories

Refer to Note 4(g) for the accounting policies on inventory valuation, Note 5(a) for uncertainty of accounting estimations and assumptions for inventory valuation and Note 6(d) for the details of the write-down of inventories, respectively, to the parent-company-only financial statements.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the fierce market competition of innovative computer peripherals and smart life consumer products, the Company's product price may fluctuate rapidly. Furthermore, the stocks for products may not meet customers' demands thus becoming obsolete. These factors expose the Company to significant level of uncertainty particularly in the area of estimating net realizable value, which is subject to management's judgments. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, evaluating whether valuation of inventories was accounted for in accordance with the Company's accounting policies; obtaining the inventory aging report, analyzing the fluctuation of inventory aging and selecting samples to verify the accuracy of inventory aging classification; and testing the net realizable value of inventories to evaluate the reasonableness of inventory provisions.

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

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the investee companies accounted for using the equity method to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the 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 parent-company-only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Kao, Ching-Wen and Tang, Chia-Chien.

KPMG

Taipei, Taiwan (Republic of China)

March 12, 2024

Notes to Readers

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

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

(English Translation of Parent-Company-Only Financial Statements and Report Originally Issued in Chinese)

ACER GADGET INC.

Parent-Company-Only 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	
Assets		Amount	%	Amount	%	Liabilities and Equity		Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(a))	\$ 849,203	48	814,973	56	2130	Contract liabilities—current (note 6(q))	\$ 36,711	2	26,003	2
1170	Accounts receivable, net (notes 6(c) and (q))	80,593	4	48,911	4	2170	Accounts payable	316,582	18	256,263	17
1180	Accounts receivable from related parties (notes 6(c), (q) and 7)	249,876	14	224,422	15	2180	Accounts payable to related parties (note 7)	20,842	1	1,353	-
1200	Other receivables	1,241	-	1,216	-	2200	Other payables	81,947	5	92,239	6
1210	Other receivables from related parties (note 7)	-	-	929	-	2220	Other payables to related parties (note 7)	5,462	-	9,089	1
130X	Inventories (note 6(d))	102,964	6	106,942	7	2230	Current income tax liabilities	-	-	4,880	-
1479	Prepayments and other current assets	65,666	4	19,016	1	2250	Provisions—current (note 6(j))	6,404	-	8,197	1
	Total current assets	<u>1,349,543</u>	<u>76</u>	<u>1,216,409</u>	<u>83</u>	2280	Lease liabilities—current (notes 6(i) and 7)	3,165	-	1,208	-
Non-current assets:						2365	Refund liabilities—current (note 7)	11,548	1	2,271	-
1517	Financial assets measured at fair value through other comprehensive income—non-current (note 6(b))	281,591	16	124,240	9	2399	Other current liabilities	1,092	-	1,059	-
1550	Investments accounted for using the equity method (note 6(e))	64,766	4	46,583	3		Total current liabilities	<u>483,753</u>	<u>27</u>	<u>402,562</u>	<u>27</u>
1600	Property, plant and equipment (note 6(f))	505	-	709	-		Non-current liabilities:				
1755	Right-of-use assets (note 6(g))	3,567	-	1,199	-	2527	Contract liabilities—non-current (note 6(q))	730	-	998	-
1760	Investment property (note 6(h))	6,315	-	6,446	1	2570	Deferred income tax liabilities (note 6(m))	17,479	1	13,123	1
1780	Intangible assets (note 7)	1,906	-	2,471	-	2580	Lease liabilities—non-current (notes 6(i) and 7)	427	-	-	-
1840	Deferred income tax assets (note 6(m))	19,617	1	21,051	1	2645	Guarantee deposits received	1,500	-	1,500	-
1975	Net defined benefit assets (note 6(l))	46,887	3	45,913	3		Total non-current liabilities	<u>20,136</u>	<u>1</u>	<u>15,621</u>	<u>1</u>
1980	Refundable deposits (note 8)	1,801	-	1,856	-		Total liabilities	<u>503,889</u>	<u>28</u>	<u>418,183</u>	<u>28</u>
1990	Other non-current assets	987	-	1,332	-		Equity (note 6(n)):				
	Total non-current assets	<u>427,942</u>	<u>24</u>	<u>251,800</u>	<u>17</u>	3110	Common stock	618,600	35	600,000	41
						3200	Capital surplus	422,373	24	413,737	28
							Retained earnings:				
						3310	Legal reserve	67,318	4	53,985	4
						3320	Special reserve	39,259	2	-	-
						3350	Retained earnings	121,263	7	133,344	9
							Total retained earnings	227,840	13	187,329	13
						3400	Other equity	4,783	-	(151,040)	(10)
							Total equity	<u>1,273,596</u>	<u>72</u>	<u>1,050,026</u>	<u>72</u>
							Total liabilities and equity	<u>\$ 1,777,485</u>	<u>100</u>	<u>1,468,209</u>	<u>100</u>
	Total assets	<u>\$ 1,777,485</u>	<u>100</u>	<u>1,468,209</u>	<u>100</u>						

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

ACER GADGET INC.**Parent-Company-Only 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	Net revenue (notes 6(q) and 7)	\$ 1,652,784	100	1,458,833	100
5000	Cost of revenue (notes 6(d), (j), 7 and 12)	(1,354,490)	(82)	(1,213,981)	(83)
	Gross profit	298,294	18	244,852	17
	Operating expenses (notes 6(c), (f), (g), (h), (i), (l), (o), (r), 7 and 12):				
6100	Selling expenses	(80,403)	(5)	(66,482)	(4)
6200	Administrative expenses	(70,968)	(4)	(51,580)	(4)
6300	Research and development expenses	(62,109)	(4)	(45,631)	(3)
6450	Expected credit loss	(23)	-	(284)	-
	Total operating expenses	(213,503)	(13)	(163,977)	(11)
	Operating income	84,791	5	80,875	6
	Non-operating income and loss (notes 6(f), (i), (k), (s) and 7):				
7100	Interest income	9,336	1	1,666	-
7190	Other income	6,965	-	10,629	-
7020	Other gains and losses	4,516	-	11,782	1
7375	Share of profits of subsidiaries	19,711	1	11,184	1
7050	Finance costs	(80)	-	(40)	-
	Total non-operating income and loss	40,448	2	35,221	2
	Income before income tax	125,239	7	116,096	8
7950	Income tax benefit (expense) (note 6(m))	(3,976)	-	19,216	1
	Net income	121,263	7	135,312	9
	Other comprehensive income (loss) (notes 6(l), (m) and (n)):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	-	-	4,794	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	157,351	10	(43,924)	(2)
8349	Income tax related to items that will not be reclassified subsequently to profit or loss	-	-	(959)	-
	Total items that will not be reclassified subsequently to profit or loss	157,351	10	(40,089)	(2)
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign operations	(1,528)	-	830	-
8399	Income tax related to items that may be reclassified subsequently to profit or loss	-	-	-	-
	Total items that may be reclassified subsequently to profit or loss	(1,528)	-	830	-
	Other comprehensive income (loss), net of income tax	155,823	10	(39,259)	(2)
	Total comprehensive income for the year	\$ 277,086	17	96,053	7
	Net income attributable to:				
8610	Shareholders of the Parent	\$ 121,263	7	133,344	9
8615	Former owner of organizational restructuring under common control	-	-	1,968	-
		\$ 121,263	7	135,312	9
	Total comprehensive income attributable to:				
8710	Shareholders of the Parent	\$ 277,086	17	94,085	7
8715	Former owner of organizational restructuring under common control	-	-	1,968	-
		\$ 277,086	17	96,053	7
	Earnings per share (in New Taiwan dollars) (note 6(p)):				
9750	Basic earnings per share				
	Shareholders of the Parent	\$	1.98		3.00
	Former owner of organizational restructuring under common control	-	-		0.04
	Basic earnings per share	\$	1.98		3.04
9850	Diluted earnings per share				
	Shareholders of the Parent	\$	1.97		2.95
	Former owner of organizational restructuring under common control	-	-		0.04
	Diluted earnings per share	\$	1.97		2.99

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

ACER GADGET INC.

Parent-Company-Only Statements of Changes in Equity

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings						Other equity					
	Common stock	Capital surplus	Legal reserve	Special reserve	Retained earnings (accumulated deficit)	Total	Foreign currency translation differences	Unrealized gain (loss) from financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Equity attributable to former owner of organizational restructuring under common control	Total equity
Balance at January 1, 2022	\$ 125,397	348,324	143,269	-	(89,284)	53,985	(201)	(106,444)	(5,136)	(111,781)	14,236	430,161
Net income in 2022	-	-	-	-	133,344	133,344	-	-	-	-	1,968	135,312
Other comprehensive income (loss) in 2022	-	-	-	-	-	-	830	(43,924)	3,835	(39,259)	-	(39,259)
Total comprehensive income (loss) in 2022	-	-	-	-	133,344	133,344	830	(43,924)	3,835	(39,259)	1,968	96,053
Appropriation of earnings:												
Legal reserve used to offset accumulated deficits	-	-	(89,284)	-	89,284	-	-	-	-	-	-	-
Capital surplus transferred to common stock	174,603	(174,603)	-	-	-	-	-	-	-	-	-	-
Capital increase by cash	300,000	240,000	-	-	-	-	-	-	-	-	-	540,000
Share-based compensation cost	-	16	-	-	-	-	-	-	-	-	-	16
Organizational restructuring under common control	-	-	-	-	-	-	-	-	-	-	(16,204)	(16,204)
Balance at December 31, 2022	<u>600,000</u>	<u>413,737</u>	<u>53,985</u>	<u>-</u>	<u>133,344</u>	<u>187,329</u>	<u>629</u>	<u>(150,368)</u>	<u>(1,301)</u>	<u>(151,040)</u>	<u>-</u>	<u>1,050,026</u>
Net income in 2023	-	-	-	-	121,263	121,263	-	-	-	-	-	121,263
Other comprehensive income (loss) in 2023	-	-	-	-	-	-	(1,528)	157,351	-	155,823	-	155,823
Total comprehensive income (loss) in 2023	-	-	-	-	121,263	121,263	(1,528)	157,351	-	155,823	-	277,086
Appropriation of earnings:												
Legal reserve	-	-	13,333	-	(13,333)	-	-	-	-	-	-	-
Special reserve	-	-	-	39,259	(39,259)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	-	(80,752)	(80,752)	-	-	-	-	-	(80,752)
Share-based compensation cost	-	124	-	-	-	-	-	-	-	-	-	124
Cash distributed from capital surplus	-	(18,248)	-	-	-	-	-	-	-	-	-	(18,248)
Capital increase by cash	18,600	26,760	-	-	-	-	-	-	-	-	-	45,360
Balance at December 31, 2023	<u>\$ 618,600</u>	<u>422,373</u>	<u>67,318</u>	<u>39,259</u>	<u>121,263</u>	<u>227,840</u>	<u>(899)</u>	<u>6,983</u>	<u>(1,301)</u>	<u>4,783</u>	<u>-</u>	<u>1,273,596</u>

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

ACER GADGET INC.**Parent-Company-Only Statements of Cash Flows****For the years ended December 31, 2023 and 2022****(Expressed in Thousands of New Taiwan Dollars)**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Income before income tax	\$ <u>125,239</u>	<u>116,096</u>
Adjustments:		
Adjustments to reconcile profit or loss:		
Depreciation	5,667	3,916
Amortization	665	164
Expected credit loss	23	284
Interest income	(9,336)	(1,666)
Share-based compensation cost	124	16
Dividend income	(6,965)	(10,629)
Interest expense	80	40
Share of profit of subsidiaries	(19,711)	(11,184)
Loss on disposal of property, plant and equipment	<u>-</u>	<u>32</u>
Total adjustments for profit or loss	<u>(29,453)</u>	<u>(19,027)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Accounts receivable	(31,705)	60,648
Accounts receivables from related parties	(25,454)	(35,859)
Other receivables	(25)	(203)
Other receivables from related parties	929	245
Inventories	3,978	(10,804)
Prepayments and other assets	(45,487)	(6,065)
Net defined benefit assets	<u>(974)</u>	<u>(1,572)</u>
Changes in operating assets	<u>(98,738)</u>	<u>6,390</u>
Accounts payable	60,319	22,573
Accounts payable to related parties	19,489	(10,470)
Other payables	(10,292)	(29,463)
Other payables to related parties	(3,627)	(14,048)
Refund liabilities	9,277	(6,739)
Contract liabilities	10,440	(14,572)
Provisions	(1,793)	3,534
Other current liabilities	<u>33</u>	<u>(83)</u>
Changes in operating liabilities	<u>83,846</u>	<u>(49,268)</u>
Total changes in operating assets and liabilities	<u>(14,892)</u>	<u>(42,878)</u>
Cash provided by operations	80,894	54,191
Interest received	9,336	1,666
Interest paid	(80)	(40)
Income taxes paid	<u>(3,884)</u>	<u>(646)</u>
Net cash flows provided by operating activities	<u>86,266</u>	<u>55,171</u>

(Continued)

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

ACER GADGET INC.**Parent-Company-Only Statements of Cash Flows (Continued)****For the years ended December 31, 2023 and 2022****(Expressed in Thousands of New Taiwan Dollars)**

	2023	2022
Cash flows from investing activities:		
Additions to property, plant and equipment	(186)	(279)
Decrease in other receivables from related parties	-	70,000
Additions to intangible assets	(100)	(2,433)
Decrease in refundable deposits	55	699
Dividends received	<u>6,965</u>	<u>10,629</u>
Net cash flows provided by investing activities	<u>6,734</u>	<u>78,616</u>
Cash flows from financing activities:		
Decrease in guarantee deposits received	-	(46)
Payment of lease liabilities	(5,130)	(3,468)
Cash dividends distributed to shareholders	(99,000)	-
Capital increase by cash	45,360	540,000
Organizational restructuring under common control	<u>-</u>	<u>(16,204)</u>
Net cash flows provided by (used in) financing activities	<u>(58,770)</u>	<u>520,282</u>
Increase in cash and cash equivalents	34,230	654,069
Cash and cash equivalents at beginning of year	<u>814,973</u>	<u>160,904</u>
Cash and cash equivalents at end of year	<u><u>\$ 849,203</u></u>	<u><u>814,973</u></u>

See accompanying notes to parent-company-only financial statements.

(English Translation of Parent-Company-Only Financial Statements Originally Issued in Chinese)

ACER GADGET INC.

Notes to the Parent-Company-Only Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Organization and business

Acer Gadget Inc. (the “Company”, formerly E-TEN Information Systems Co., Ltd.) was incorporated on March 27, 1986, as a company limited by shares under the Company Act of the Republic of China (“R.O.C.”). The Company merged with GadgeTek Inc. (“GadgeTek”), one of the subsidiaries of Acer Incorporated (“Acer”), through the issuance of new shares, with the merger date set on June 1, 2021. After the merger, the Company became the sole surviving entity and GadgeTek became the dissolved company. The address of the Company’s registered office is 7F-5, No. 369, Fuxing N. Rd., Songshan Dist., Taipei City, Taiwan.

The Company acquired gaming peripherals business of Acer Gaming Inc. (“Acer Gaming”), one of the subsidiaries of Acer, on March 17, 2022. The aforementioned transaction is an organizational restructuring under common control. Refer to note 7(c) for the related information.

The Company is primarily engaged in telecommunication value-added internet business, design, sales and leasing of computer hardware and software application system and sales of innovative computer peripherals and smart life consumer products.

2. Authorization of the parent-company-only financial statements

These parent-company-only financial statements were authorized for issuance by the Board of Directors on March 12, 2024.

3. Application of new and revised accounting standards and interpretations

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

The Company has initially adopted the following new amendments, which do not have a significant impact on its parent-company-only 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 Company has initially adopted the following new amendments, which do not have a significant impact on its parent-company-only financial statements, from May 23, 2023:

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

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

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

The Company 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 parent-company-only 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”

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

The Company 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 parent-company-only 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 IAS 21 “Lack of Exchangeability”

4. Summary of material accounting policies

The material accounting policies presented in the parent-company-only financial statements are summarized as follows. The following accounting policies have been applied consistently throughout the periods presented in the parent-company-only financial statements.

(a) Statement of compliance

The Company’s accompanying parent-company-only financial statements have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” (the “Regulations”).

(b) Basis of preparation

(i) Basis of measurement

The accompanying parent-company-only financial statements have been prepared on a historical cost basis except for the following items:

- 1) Financial assets measured at fair value through other comprehensive income; and
- 2) Net defined benefit asset (liability) measured at present value of defined benefit obligation less the fair value of plan assets.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The Company's parent-company-only financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(iii) Organizational restructuring under common control

The Company acquired gaming peripherals business from Acer Gaming Inc., one of the subsidiaries of its parent company, Acer, on March 17, 2022. In accordance with the Interpretations (2012) No. 301 and Comments on IFRS for Business Combination under Common Control issued by Accounting Research and Development Foundation on October 26, 2018, the transaction is accounted for using book value method and the prior period comparative information in the financial statements is restated as if the organization restricting under common control had already occurred before the beginning of the period. Equity attributable to former owner before organizational restructuring under common control was recognized in "equity attributable to former owner of organizational restructuring under common control" in the parent-company-only financial statements. Profit or loss attributable to former owner of organizational restructuring under common control was recognized in "income attributable to former owner of organizational restructuring under common control" in the parent-company-only statements of comprehensive income.

(c) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period ("the reporting date"), 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 functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at 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 an investment in equity securities designated as at fair value through other comprehensive income, which are recognized in other comprehensive income.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Company's parent-company-only financial statements at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency of the Company's parent-company-only financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, joint control, or significant influence is lost, the accumulated exchange differences related to that foreign operation is reclassified to profit or loss. In the case of a partial disposal that does not result in the Company losing control over a subsidiary, the proportionate share of the accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Company's ownership interest in an associate or joint venture, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

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

An asset is classified as current when one of the following criteria is met; all other assets are classified as non-current assets:

- (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 when one of the following criteria is met; all other liabilities are classified as non-current liabilities:

- (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 Company 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.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(e) Cash and cash equivalents

Cash comprises cash on hand, checking deposits and demand deposits. Cash equivalents consist of short-term and 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 that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

(f) Financial instruments

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost and fair value through other comprehensive income (FVOCI). All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Financial assets are not reclassified subsequent to their initial recognition unless the Company 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.

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 financial 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.

Subsequent to initial recognition, these assets are measured at amortized cost, using the effective interest method less impairment loss. Interest income, foreign exchange gains and losses, and recognition of impairment loss 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)

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

(Continued)

ACER GADGET INC.

Notes to the Parent-Company-Only Financial Statements

On initial recognition of an equity investment that is not held for trading, the Company 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.

Financial assets measured at fair value through other comprehensive income are subsequently measured at fair value. Foreign exchange gains and losses, interest income calculated using the effective interest method, impairment loss and dividends income (unless the dividend clearly represents a recovery of part of the cost of the investment) are recognized in profit or loss. Other changes are recognized in other comprehensive income and accumulated in other equity as unrealized gain (loss) from financial assets measured at fair value through other comprehensive income. On derecognition for debt investments, gains and losses accumulated in equity are reclassified to profit or loss. On derecognition for equity investments, gains and losses accumulated in equity are reclassified to retain earnings and are never reclassified to profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive the dividends is established (usually the ex-dividend date).

3) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECL") on financial assets measured at amortized cost (including cash and cash equivalents, accounts receivable (including related parties), other receivables (including related parties) and refundable deposits).

The Company measures loss allowances for accounts receivable and other financial assets at an amount equal to lifetime ECL, except for the following financial assets which are measured using 12-month ECL:

- 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.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs 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 ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. The information includes both quantitative and qualitative information and analysis based on the Company's historical experience and credit assessment, as well as forward-looking information.

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ACER GADGET INC.

Notes to the Parent-Company-Only Financial Statements

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

At each reporting date, the Company assesses whether financial assets carried at amortized cost 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 asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract such as a default or being more than 180 days past due;
- the Company, for economic or contractual reasons relating to the borrower’s financial difficulty, grants to the borrower a concession that the Company would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company 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 Company 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 Company’s procedures for recovery of amounts due.

4) Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its 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.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(ii) Financial liabilities

1) Equity instruments

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

2) Financial liabilities

Financial liabilities are classified as measured at amortized cost and 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.

3) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The Company 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. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(g) 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 all necessary expenditure incurred in bringing them to the location and condition ready for sale. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and selling expenses.

(h) Investments in subsidiaries

When preparing the parent-company-only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under equity method, profit or loss and other comprehensive income recognized in parent-company-only financial statement is in line with total comprehensive income attributable to shareholders of the Company in the consolidated financial statements. In addition, the equity recognized in the parent-company-only financial statements are in line with the equity attributable to shareholders of the Company in the consolidated financial statements.

Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for as equity transactions.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(i) Property, plant and equipment

(i) Recognition and measurement

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 property, plant and equipment is recognized in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated on the cost of assets less their residual values 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. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. The estimated useful lives of property, plant and equipment are as follows: machinery and equipment: 5 years; furniture and fixtures: 3 years; leasehold improvements: 3 to 5 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

(j) 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 or for administrative purposes. Investment property is measured at cost on initial recognition, and subsequently at cost, less accumulated depreciation and accumulated impairment losses. The methods for depreciating and determining the useful life and residual value of investment property are the same as those adopted for property, plant and equipment.

Rental income from investment property is recognized as other operating income and expenses 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.

An investment property is reclassified to property, plant and equipment at its carrying amount when the purpose of the investment property has been changed from investment to owner-occupied.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(k) Intangible assets

Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is using straight-line basis over the following estimated useful lives: acquired software: 1 to 3 years; patents: 5 years; trademarks: 10 years.

The residual value, amortization period, and amortization method are reviewed at least at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

(l) Leases

At inception of a contract, the Company 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.

(i) As a lessee

The Company 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.

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 evaluated and 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 Company's incremental borrowing rate. Generally, the Company 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 subsequently 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 Company's estimate of the amount expected to be payable under a residual value guarantee; or

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

- there is a change of the Company's assessment on whether it will exercise an option to purchase the underlying asset; or
- there is a change in the lease term resulting from a change of the Company's assessment on whether it will exercise an extension or termination option; or
- there is any lease modification in lease subject, scope of the lease or other terms.

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 Company 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 the difference in profit or loss for any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment properties, and lease liabilities as a separate line item respectively in the parent-company-only balance sheets.

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

(ii) As a lessor

When the Company 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 Company makes an overall assessment of whether the lease transfers to the lessee substantially all the risks and rewards 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

For operating lease, the Company recognizes rental income on a straight-line basis over the lease term.

(m) Impairment of non-financial assets

The Company assesses at the end of each reporting date whether there is any indication that the carrying amounts of non-financial assets (other than inventories and deferred tax assets) may be impaired. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually or when there are indications of impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. Goodwill arising from a business combination is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

The recoverable amount of an individual asset or CGU is the higher 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.

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 non-financial assets, an impairment loss is reversed only to the extent that the asset's carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the assets in prior years.

(n) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A provision for warranties is recognized when the underlying products or services are sold. This provision reflects the historical warranty claim rate and the weighting of all possible outcomes against their associated probabilities.

(o) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

(i) Sale of goods

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

The Company recognizes revenue based on the price specified in the contract, net of the estimated volume discounts and rebates. Accumulated experience is used to estimate the discounts and rebates using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognized for expected sales discounts and rebate payable to customers in relation to sales made until the end of the reporting period.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

The Company's obligation to provide a refund for faulty goods under the standard warranty terms is recognized as a provision for warranty.

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

(ii) Financing components

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

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each 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 discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method.

When the benefits of a plan are improved, the expenses related to the increased obligations resulting from the services rendered by employees in the past years are recognized in profit or loss immediately.

The remeasurements of the net defined benefit liability (asset) comprise 1) actuarial gains and losses; 2) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and 3) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income and reflected in other equity.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

(q) Income taxes

Income taxes comprise current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

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 or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities at the reporting date and their respective tax base. Deferred taxes are not recognized for:

- (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 1) affects neither accounting nor taxable profits (losses) and 2) 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 Company 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 unused tax losses, 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 reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

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, and reflect uncertainty related to income taxes, if any.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

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

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

The basic and diluted EPS attributable to stockholders of the Parent are disclosed in the parent-company-only financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Parent by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Parent and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Company’s dilutive potential common shares include profit sharing for employees to be settled in the form of common stock.

(s) Operating segments

The Company discloses the operating segment information in the consolidated financial statements. Therefore, the Company does not disclose the operating segment information in the parent-company-only financial statements.

5. Critical accounting judgments and key sources of estimation and assumption uncertainty

The preparation of the consolidated financial statements requires management to make 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in the future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

(a) Valuation of inventories

As inventories are measured at the lower of cost or net realizable value, the Company estimates the net realizable value of inventory at the reporting date, taking obsolescence and unmarketable items into account, 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 of future demand within a time horizon, which could result in significant adjustments. Refer to note 6(d) for further description of inventory write-downs.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2023	December 31, 2022
Demand deposits and checking accounts	\$ 87,733	464,973
Time deposits with original maturities less than three months	761,470	350,000
	<u>\$ 849,203</u>	<u>814,973</u>

(b) Financial assets measured at fair value through other comprehensive income — non-current

	December 31, 2023	December 31, 2022
Equity investments measured at fair value through other comprehensive income:		
Domestic listed stock	<u>\$ 281,591</u>	<u>124,240</u>

The Company designated the above investments as financial assets measured at fair value through other comprehensive income as these equity instruments are held for long-term strategic purposes and not for trading. For the years ended December 31, 2023 and 2022, no strategic investments was disposed.

(c) Accounts receivable, net (measured at amortized cost)

	December 31, 2023	December 31, 2022
Accounts receivable	\$ 81,799	50,094
Accounts receivable from related parties	249,876	224,422
	331,675	274,516
Less: loss allowance	(1,206)	(1,183)
	<u>\$ 330,469</u>	<u>273,333</u>

The Company applies the simplified approach to provide for its expected credit losses, i.e., the use of lifetime expected loss provision for all receivables. Forward-looking information is taken into consideration as well. Analysis of expected credit losses on accounts receivable was as follows:

	December 31, 2023		
	Gross carrying amount	Weighted- average loss rate	Loss allowance
Current	\$ 78,196	0.00%	-
Past due 1-30 days	349	0.00%	-
Past due 31-60 days	1,787	0.00%	-
Past due 151 days or over	284	8.10%	(23)
Past due 181 days or over	1,183	100.00%	(1,183)
	<u>\$ 81,799</u>		<u>(1,206)</u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

	December 31, 2022		
	Gross carrying amount	Weighted- average loss rate	Loss allowance
Current	\$ 47,948	0.00%	-
Past due 1-30 days	50	0.00%	-
Past due 61-90 days	877	0.00%	-
Past due 91-120 days	36	0.00%	-
Past due 181 days or over	1,183	100.00%	(1,183)
	<u><u>\$ 50,094</u></u>		<u><u>(1,183)</u></u>

As of December 31, 2023 and 2022, no expected credit losses was provided for accounts receivable from related parties after management's assessment. Analysis of expected credit losses on accounts receivable from related parties was as follows:

	December 31, 2023	December 31, 2022
Current	\$ 203,564	148,290
Past due 1-30 days	45,102	75,970
Past due 31-60 days	-	162
Past due 61-90 days	1,210	-
Past due 181 days or over	-	-
	<u><u>\$ 249,876</u></u>	<u><u>224,422</u></u>

Movements of the allowance for accounts receivable were as follows:

	2023	2022
Balance at January 1	\$ 1,183	1,273
Impairment losses recognized	23	284
Write-off	-	(374)
Balance at December 31	<u><u>\$ 1,206</u></u>	<u><u>1,183</u></u>

(d) Inventories

	December 31, 2023	December 31, 2022
Raw materials	\$ 2,399	14,299
Merchandise and finished goods	100,565	92,643
	<u><u>\$ 102,964</u></u>	<u><u>106,942</u></u>

The amounts of inventories recognized as cost of revenue were as follows:

	2023	2022
Cost of inventories sold	\$ 1,345,123	1,189,215
Write-downs of inventories	5,072	15,595
	<u><u>\$ 1,350,195</u></u>	<u><u>1,204,810</u></u>

The write-downs of inventories arose from the write-downs of inventories to net realizable value.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(e) Investments accounted for using the equity method

A summary of the Company's investments accounted for using the equity method at the reporting date is as follows:

	December 31, 2023	December 31, 2022
Subsidiaries	\$ 64,766	46,583

Refer to consolidated financial statements for the year ended December 31, 2023.

(f) Property, plant and equipment

The movements of cost and accumulated depreciation of the property, plant and equipment were as follows:

	<u>Machinery and equipment</u>	<u>Furniture and fixtures</u>	<u>Leasehold improvements</u>	<u>Total</u>
Cost:				
Balance at January 1, 2023	\$ 198	21,164	337	21,699
Additions	-	186	-	186
Disposals	-	(20,412)	(58)	(20,470)
Balance at December 31, 2023	\$ 198	938	279	1,415
Balance at January 1, 2022	\$ 198	21,371	3,104	24,673
Additions	-	-	279	279
Disposals	-	(207)	(3,046)	(3,253)
Balance at December 31, 2022	\$ 198	21,164	337	21,699
Accumulated depreciation:				
Balance at January 1, 2023	\$ 161	20,731	98	20,990
Depreciation	37	261	92	390
Disposals	-	(20,412)	(58)	(20,470)
Balance at December 31, 2023	\$ 198	580	132	910
Balance at January 1, 2022	\$ 122	20,684	3,073	23,879
Depreciation	39	254	39	332
Disposals	-	(207)	(3,014)	(3,221)
Balance at December 31, 2022	\$ 161	20,731	98	20,990
Carrying amounts:				
Balance at December 31, 2023	\$ -	358	147	505
Balance at December 31, 2022	\$ 37	433	239	709
Balance at January 1, 2022	\$ 76	687	31	794

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(g) Right-of-use assets

	<u>Buildings</u>	<u>Others</u>	<u>Total</u>
Cost:			
Balance at January 1, 2023	\$ 1,870	4,769	6,639
Additions	2,503	4,790	7,293
Lease modifications	-	221	221
Disposals	(1,870)	(4,769)	(6,639)
Balance at December 31, 2023	<u>\$ 2,503</u>	<u>5,011</u>	<u>7,514</u>
Balance at January 1, 2022	\$ 3,715	4,769	8,484
Additions	1,870	-	1,870
Disposals	(3,715)	-	(3,715)
Balance at December 31, 2022	<u>\$ 1,870</u>	<u>4,769</u>	<u>6,639</u>
Accumulated depreciation:			
Balance at January 1, 2023	\$ 1,069	4,371	5,440
Depreciation	2,679	2,467	5,146
Disposals	(1,870)	(4,769)	(6,639)
Balance at December 31, 2023	<u>\$ 1,878</u>	<u>2,069</u>	<u>3,947</u>
Balance at January 1, 2022	\$ 3,715	1,987	5,702
Depreciation	1,069	2,384	3,453
Disposals	(3,715)	-	(3,715)
Balance at December 31, 2022	<u>\$ 1,069</u>	<u>4,371</u>	<u>5,440</u>
Carrying amounts:			
Balance at December 31, 2023	<u>\$ 625</u>	<u>2,942</u>	<u>3,567</u>
Balance at December 31, 2022	<u>\$ 801</u>	<u>398</u>	<u>1,199</u>
Balance at January 1, 2022	<u>\$ -</u>	<u>2,782</u>	<u>2,782</u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(h) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Others</u>	<u>Total</u>
Cost:				
Balance at January 1, 2023				
(Balance at December 31, 2023)	\$ <u>20,145</u>	<u>9,033</u>	<u>300</u>	<u>29,478</u>
Balance at January 1, 2022				
(Balance at December 31, 2022)	\$ <u>20,145</u>	<u>9,033</u>	<u>300</u>	<u>29,478</u>
Accumulated depreciation and impairment loss:				
Balance at January 1, 2023	\$ 16,291	6,441	300	23,032
Depreciation	<u>-</u>	<u>131</u>	<u>-</u>	<u>131</u>
Balance at December 31, 2023	\$ <u>16,291</u>	<u>6,572</u>	<u>300</u>	<u>23,163</u>
Balance at January 1, 2022	\$ 16,291	6,310	300	22,901
Depreciation	<u>-</u>	<u>131</u>	<u>-</u>	<u>131</u>
Balance at December 31, 2022	\$ <u>16,291</u>	<u>6,441</u>	<u>300</u>	<u>23,032</u>
Carrying amounts:				
Balance at December 31, 2023	\$ <u>3,854</u>	<u>2,461</u>	<u>-</u>	<u>6,315</u>
Balance at December 31, 2022	\$ <u>3,854</u>	<u>2,592</u>	<u>-</u>	<u>6,446</u>
Balance at January 1, 2022	\$ <u>3,854</u>	<u>2,723</u>	<u>-</u>	<u>6,577</u>
Fair value:				
Balance at December 31, 2023				\$ <u>17,864</u>
Balance at December 31, 2022				\$ <u>16,072</u>

The fair value of the investment property is determined by management based on the valuation made by independent appraisers. The inputs, which were used in the fair value measurement, were classified to level 3.

(i) Lease liabilities

(i) The carrying amount of lease liabilities were as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current	\$ <u>3,165</u>	<u>1,208</u>
Non-current	\$ <u>427</u>	<u>-</u>

Refer to note 6(u) for the maturity analysis of lease liabilities.

(ii) The amounts recognized in profit or loss were as follows:

	<u>2023</u>	<u>2022</u>
Interest expense on lease liabilities	\$ <u>80</u>	<u>40</u>
Expenses relating to short-term leases	\$ <u>57</u>	<u>44</u>
Expenses relating to leases of low-value assets	\$ <u>99</u>	<u>27</u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(iii) The amounts recognized in the statement of cash flows for the Company were as follows:

	<u>2023</u>	<u>2022</u>
Total cash outflow for leases	\$ <u><u>5,366</u></u>	<u><u>3,579</u></u>

(iv) Major terms of leases

The Company leases buildings, office equipment, and miscellaneous equipment with lease terms of 1 to 2 years. Certain the leases of buildings, office equipment, and miscellaneous equipment are short-term lease or low-value assets and therefore, the Company elected to applied exemption and not to recognize right-of-use assets and lease liabilities.

(j) Provisions

	Warranties
Balance at January 1, 2023	\$ 8,197
Additions	30
Amount utilized	(1,866)
Effect of exchange rate changes	43
Balance at December 31, 2023	\$ <u><u>6,404</u></u>
Balance at January 1, 2022	\$ 4,663
Additions	4,321
Amount utilized	(1,461)
Effect of exchange rate changes	674
Balance at December 31, 2022	\$ <u><u>8,197</u></u>

(i) Warranties

The provision for warranties is made based on the number of units sold currently under warranty, historical rates of warranty claim on those units, and cost per claim to satisfy the warranty obligation. The Company reviews the estimation basis on an ongoing basis and revises it when appropriate.

(k) Operating lease of lessor

The Company leases its investment property and has classified these leases as operating leases as it does not transfer substantially all the risks and rewards incidental to ownership of the assets to lessee. Refer to note 6(h) for the information of investment property.

For the years ended December 31, 2023 and 2022, the rental income from the lease of investment property amounted to \$323 and \$300, respectively.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(l) Employee benefits

(i) Defined benefit plans

The reconciliation between the present value of defined benefit obligations and the net defined benefit assets (liabilities) for defined benefit plans was as follows:

	December 31, 2023	December 31, 2022
Present value of benefit obligations	\$ -	-
Fair value of plan assets	46,887	45,913
Net defined benefit assets	<u><u>\$ 46,887</u></u>	<u><u>45,913</u></u>

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement. In 2022, the Company reached an agreement with its employees on the early settlement of the defined benefit plan and made cash payments to employees, wherein the present value of defined benefit obligations amounted to \$0 on December 31, 2022.

1) Composition of plan assets

The pension fund (the "Fund") contributed by the Company is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", with regard to the utilization of the Fund, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

As of December 31, 2023 and 2022, the balances of aforementioned pension funds were \$46,887 and \$45,913, respectively. For information on the domestic labor pension fund assets (including the asset portfolio and yield of the fund), refer to the website of the Bureau of Labor Funds.

2) Movements in present value of the defined benefit obligations

	2023	2022
Defined benefit obligations at January 1	\$ -	1,317
Interest expense	-	8
Settlement	-	(1,325)
Defined benefit obligations at December 31	<u><u>\$ -</u></u>	<u><u>-</u></u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

3) Movements in fair value of plan assets

	2023	2022
Fair value of plan assets at January 1	\$ 45,913	40,864
Interest income	974	255
Remeasurement on the net defined benefit assets:		
— Return on plan assets (excluding current interest expense)	-	4,794
Fair value of plan assets at December 31	<u><u>\$ 46,887</u></u>	<u><u>45,913</u></u>

4) Changes in the effect of the asset ceiling

In 2023 and 2022, there was no effect of the asset ceiling.

5) Expenses recognized in profit or loss

	2023	2022
Net interest income of net defined benefit assets	\$ (974)	(247)
Gains on settlement	-	(57)
Operating expenses	<u><u>\$ (974)</u></u>	<u><u>(304)</u></u>

6) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	December 31, 2023	December 31, 2022
Discount rate	Not applicable	1.750 %
Future salary change	Not applicable	Not applicable

(ii) Defined contribution plans

The Company contributes monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company has no legal or constructive obligation to pay additional amounts after contributing a fixed amount to the Bureau of Labor Insurance. For the years ended December 31, 2023 and 2022, the Company recognized pension expenses of \$3,022 and \$2,790, respectively, in relation to the defined contribution plans.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(m) Income taxes

(i) The components of income tax expense (benefit) were as follows:

	<u>2023</u>	<u>2022</u>
Current income tax expense (benefit)		
Current period	\$ -	492
Adjustments for prior years	(1,814)	-
	<u>(1,814)</u>	<u>492</u>
Deferred income tax expense (benefit)		
Origination and reversal of temporary differences	5,790	(19,708)
	<u>\$ 3,976</u>	<u>(19,216)</u>

The components of income tax expense recognized in other comprehensive income were as follows:

	<u>2023</u>	<u>2022</u>
Remeasurement of defined benefit plans	\$ -	959

Reconciliation of income tax expense (benefit) and income before income tax for 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Income before income tax	\$ <u>125,239</u>	\$ <u>116,096</u>
Income tax using the Company's statutory tax rate	25,048	23,219
Permanent difference	(1,393)	(2,379)
Adjustments for prior-year income tax expense	(1,814)	-
Recognition of previously unrecognized tax losses	(3,078)	(19,760)
Utilization of previously unrecognized tax losses	-	(23,672)
Changes in unrecognized temporary differences	(14,787)	3,619
Others	-	(243)
Income tax expense (benefit)	<u>\$ 3,976</u>	<u>(19,216)</u>

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

	December 31, 2023	December 31, 2022
Unrecognized deferred income tax assets:		
Tax losses	\$ -	3,078
Deductible temporary differences	<u>-</u>	<u>24,595</u>
	<u>\$ -</u>	<u>27,673</u>

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, can be carried forward for 10 years to offset future taxable profit. Deferred tax assets have not been fully recognized in respect of these items as the management believed that it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

2) Recognized deferred income tax assets and liabilities

Deferred income tax assets:

	Allowance for sales rebates	Provision for inventory obsolescence	Tax losses	Accrued expenses and others	Total
Balance at January 1, 2023	\$ -	-	19,760	1,291	21,051
Recognized in profit or loss	<u>2,310</u>	<u>6,319</u>	<u>(13,373)</u>	<u>3,310</u>	<u>(1,434)</u>
Balance at December 31, 2023	<u>\$ 2,310</u>	<u>6,319</u>	<u>6,387</u>	<u>4,601</u>	<u>19,617</u>
Balance at January 1, 2022	\$ -	-	-	-	-
Recognized in profit or loss	<u>-</u>	<u>-</u>	<u>19,760</u>	<u>1,291</u>	<u>21,051</u>
Balance at December 31, 2022	<u>\$ -</u>	<u>-</u>	<u>19,760</u>	<u>1,291</u>	<u>21,051</u>

Deferred income tax liabilities:

	Defined benefit plans	Share of profits of subsidiaries	Others	Total
Balance at January 1, 2023	\$ 7,064	6,059	-	13,123
Recognized in profit or loss	<u>-</u>	<u>3,942</u>	<u>414</u>	<u>4,356</u>
Balance at December 31, 2023	<u>\$ 7,064</u>	<u>10,001</u>	<u>414</u>	<u>17,479</u>
Balance at January 1, 2022	\$ 6,045	3,821	955	10,821
Recognized in profit or loss	<u>60</u>	<u>2,238</u>	<u>(955)</u>	<u>1,343</u>
Recognized in other comprehensive income	<u>959</u>	<u>-</u>	<u>-</u>	<u>959</u>
Balance at December 31, 2022	<u>\$ 7,064</u>	<u>6,059</u>	<u>-</u>	<u>13,123</u>

(iii) The Company's income tax returns for the years through 2021 have been examined and approved by the R.O.C. income tax authorities.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(n) Capital and other equity

(i) Common stock

As of December 31, 2023 and 2022, the Company's authorized shares of common stock consisted of 120,000 thousand shares, of which 61,860 thousand and 60,000 thousand shares were issued, respectively. The par value of the Company's common stock is \$10 (in New Taiwan dollars) per share.

The movements in outstanding shares of common stock were as follows (in thousands of shares):

	<u>2023</u>	<u>2022</u>
Balance at January 1	60,000	12,540
Capital surplus transferred to common stock	-	17,460
Capital increase by cash	<u>1,860</u>	<u>30,000</u>
Balance at December 31	<u>61,860</u>	<u>60,000</u>

The issuance of 1,860 thousand of common shares at price of \$26 per share (in New Taiwan dollars) was resolved by the Company's Board of Directors on April 25, 2023, wherein 279 thousand of common shares, comprising 15% of the newly issued common shares, were reserved for employee subscription in accordance with the Company's Articles of Incorporation. In the case that the Company's employees waived the right to subscribe, or the shares reserved for employees were not fully subscribed by employees, the Chairman may include specific person for subscription. The effective date of capital increase was set on May 29, 2023 with a total consideration amounting to \$45,360 (net of the direct issuing cost of \$3,000) and the related registration procedures have been completed.

The issuance of 30,000 thousand of common shares was resolved by the Company's Board of Directors on May 16, 2022. Except for 4,500 thousand of common shares, comprising 15% of the newly issued common shares, were reserved for employee subscription, shareholders may subscribe to the new shares in proportion to their ownership percentage on the effective date. In the case that the Company's employees or shareholders have not subscribed sufficiently, or waived the right to subscribe, the Chairman may include specific person for subscription. The effective date of capital increase was set on July 8, 2022 and the related registration procedures have been completed.

The issuance of 17,460 thousand of common shares transferred from capital surplus amounting to \$174,603 was resolved by the Company's Board of Directors on May 4, 2022. The effective date of capital increase was set on May 11, 2022 and the related registration procedures have been completed.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(ii) Capital surplus

	December 31, 2023	December 31, 2022
Paid-in capital in excess of par value	\$ 327,749	319,237
Surplus related to treasury stock transactions	46,802	46,802
Surplus from mergers	47,682	47,682
Employee stock options	140	16
	<u>\$ 422,373</u>	<u>413,737</u>

Pursuant to the Company Act, any realized capital surplus is initially used to cover accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends or distributed by cash based on the original shareholding ratio. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations received by the Company.

(iii) Retained earnings and dividend policy

1) Legal reserve

Pursuant to the Company Act, if the Company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve by issuing new shares or distributing cash for the portion of legal reserve which exceeds 25% of the paid-in capital.

2) Special reserve

In accordance with the rulings issued by the FSC, a special reserve equal to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from the after-tax net profit in the period, plus items other than the after-tax net profit in the period that are included in the current-period undistributed earnings, and prior-period undistributed earnings. This special reserve shall revert to retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

3) Earnings distribution

The Company's Articles of Incorporation stipulate that at least 10% of annual net income, after deducting accumulated deficit, if any, must be retained as legal reserve until the legal reserve has reached the Company's total paid-in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations when necessary. The remaining balance, together with the accumulated unappropriated earnings can be distributed as dividends to stockholders, pursuant to the appropriation of earnings proposed by the Board of Directors and approved by the stockholders.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

Earnings are distributed in consideration of the Company's current and long-term development, the overall economic environment, capital needs, market competition in domestic and international business and long-term interest of its shareholders. Earnings can be distributed by stock or cash, wherein no less than 10% of the distributable earnings shall be appropriated as shareholder dividends unless the Company's Board of Directors resolved not to distribute any cash dividend and approved by the shareholders. The Company has adopted a stable dividend policy in which cash dividends comprise at least 10% of the total distribution of dividends except when the Company's Board of Directors resolve not to distribute any cash dividend and approved by the shareholders.

On May 5, 2022, the Company's Board of Directors, on behalf of shareholders, resolved to offset the accumulated deficit by using 2021 net income of \$7,296 and legal reserve of \$89,284 and not to distribute dividends.

On May 18, 2023, the shareholders approved the distribution of cash dividends amounting to \$80,752 (\$1.3458687 per share, in New Taiwan dollars), and the distribution of cash dividends from capital surplus amounting to \$18,248 (\$0.3041313 per share, in New Taiwan dollars).

On March 12, 2024, the Company's Board of Directors proposed the distribution of cash dividends amounting to \$102,069 (\$1.65 per share, in New Taiwan dollars).

Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(iv) Other equity items (net after tax)

1) Foreign currency translation differences:

	<u>2023</u>	<u>2022</u>
Balance at January 1	\$ 629	(201)
Foreign exchange differences arising from translation of foreign operations	<u>(1,528)</u>	<u>830</u>
Balance at December 31	<u><u>\$ (899)</u></u>	<u><u>629</u></u>

2) Unrealized gain (loss) from financial assets measured at fair value through other comprehensive income:

	<u>2023</u>	<u>2022</u>
Balance at January 1	\$ (150,368)	(106,444)
Changes in fair value of financial assets measured at fair value through other comprehensive income	<u>157,351</u>	<u>(43,924)</u>
Balance at December 31	<u><u>\$ 6,983</u></u>	<u><u>(150,368)</u></u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

3) Remeasurement of defined benefit plans

	2023	2022
Balance at January 1	\$ (1,301)	(5,136)
Remeasurement of defined benefit plans	<u>-</u>	<u>3,835</u>
Balance at December 31	<u><u>\$ (1,301)</u></u>	<u><u>(1,301)</u></u>

(o) Share-based payment

The Company's share-based payment arrangements in 2023 and 2022 were as follows:

	2023	2022
	Issuance of new shares reserved for employee subscription	Issuance of new shares reserved for employee subscription
Grant date	<u>2023/04/25</u>	<u>2022/05/16</u>
Number of shares granted (in thousands)	279	4,500
Contract term	2023/04/25~2023/05/24	2022/05/16~2022/06/17
Qualified employees	Employees of the Company	Employees of the Company
Vesting conditions	Immediately vested	Immediately vested

The Company used the Black-Scholes Model in measuring the fair value of employee stock options at the grant date. The main inputs used in the valuation model were as follows:

	2023	2022
	Issuance of new shares reserved for employee subscription	Issuance of new shares reserved for employee subscription
Fair value of options granted (NT\$/ share)	0.444284	0.003449
Fair value of stock at grant date (NT\$/ share)	24.82	13.66
Exercise price (NT\$/ share)	26.00	18.00
Expected life (in years)	0.082	0.085
Expected volatility (%)	31.31%	37.77%
Risk-free interest rate (%)	0.933%	0.726%

Expected volatility was determined based on the vesting period and historical volatility of the comparable companies. The risk-free interest rate was determined based on government bonds.

In 2023 and 2022, the compensation costs recognized for the above-mentioned share-based payment arrangements amounted to \$124 and \$16, respectively, which were reported in the operating expense.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(p) Earnings per share (“EPS”)

(i) Basic earnings per share

	<u>2023</u>	<u>2022</u>
Net income attributable to shareholders of the Parent	\$ 121,263	133,344
Net income attributable to former owner of organizational restructuring under common control	<u>-</u>	<u>1,968</u>
Net income	<u><u>\$ 121,263</u></u>	<u><u>135,312</u></u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u><u>61,106</u></u>	<u><u>44,465</u></u>
Basic earnings per share attributable to shareholders of the Parent (in New Taiwan dollars)	\$ 1.98	3.00
Basic earnings per share attributable to former owner of organizational restructuring under common control (in New Taiwan dollars)	<u>-</u>	<u>0.04</u>
Basic earnings per share (in New Taiwan dollars)	<u><u>\$ 1.98</u></u>	<u><u>3.04</u></u>

(ii) Diluted earnings per share

	<u>2023</u>	<u>2022</u>
Net income attributable to shareholders of the Parent	\$ 121,263	133,344
Net income attributable to former owner of organizational restructuring under common control	<u>-</u>	<u>1,968</u>
Net income	<u><u>\$ 121,263</u></u>	<u><u>135,312</u></u>
Weighted-average number of common shares outstanding (in thousands)	61,106	44,465
Effect of dilutive potential common shares (in thousands):		
Effect of remuneration to employees	<u>378</u>	<u>722</u>
Weighted-average number of common shares outstanding (in thousands)	<u>61,484</u>	<u>45,187</u>
Diluted earnings per share attributable to shareholders of the Parent (in New Taiwan dollars)	\$ 1.97	3
Diluted earnings per share attributable to former owner of organizational restructuring under common control (in New Taiwan dollars)	<u>-</u>	<u>0.04</u>
Diluted earnings per share (in New Taiwan dollars)	<u><u>\$ 1.97</u></u>	<u><u>2.99</u></u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2023</u>	<u>2022</u>
Primary geographical markets:		
Taiwan	\$ 1,165,307	1,234,792
Russia	163,717	-
America	112,083	3,323
Philippines	57,398	42,676
Switzerland	41,842	67,283
Malaysia	20,132	14,993
Thailand	10,518	19,873
Mainland China	1,686	25,276
Others	<u>80,101</u>	<u>50,617</u>
	<u>\$ 1,652,784</u>	<u>1,458,833</u>
Major products/services lines		
Smart device products	\$ 1,209,710	1,104,324
Smart wearables	358,228	267,694
Others	<u>84,846</u>	<u>86,815</u>
	<u>\$ 1,652,784</u>	<u>1,458,833</u>

(ii) Contract balances

	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>January 1, 2022</u>
Accounts receivable (including related parties)	\$ 331,675	274,516	299,679
Less: loss allowance	<u>(1,206)</u>	<u>(1,183)</u>	<u>(1,273)</u>
Total	<u>\$ 330,469</u>	<u>273,333</u>	<u>298,406</u>
Contract liabilities — current	<u>\$ 36,711</u>	<u>26,003</u>	<u>39,147</u>
Contract liabilities — non-current	<u>\$ 730</u>	<u>998</u>	<u>2,426</u>

Refer to note 6(c) for details on accounts receivable and related loss allowance.

The changes in the balance of contract liabilities were mainly due to the timing difference between the satisfaction of performance obligation and the receipt of customer's payment.

The amount of revenue recognized in 2023 and 2022 that were included in the balances of contract liabilities at January 1, 2023 and 2022, was \$25,978 and \$38,869, respectively.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(r) Remuneration to employees and directors

The Company's Articles of Incorporation, amended on May 5, 2022, require that annual earning shall first be offset against any accumulated deficit, then, a minimum of 2% shall be allocated as employee remuneration and a maximum of 0.8% be allocated as directors' remuneration. Employees who are entitled to receive the abovementioned employee remuneration, in share or cash, include the employees of subsidiaries of the Company who meet certain specific requirements set by the Board of Directors. Directors are entitled to receive the abovementioned directors' remuneration in cash.

For the years ended December 31, 2023 and 2022, the Company accrued its remuneration to employees amounting to \$11,380 and \$12,645, respectively, and the remuneration to directors amounting to \$920 and \$169, respectively. The said amounts, which were recognized as operating expenses, were calculated based on pre-tax net profit for each year before deducting the amount of the remuneration to employees and directors, multiplied by the proposed distribution ratio of remuneration to employees and directors. If the actual amounts differ from the estimated amounts, the differences shall be accounted as changes in accounting estimates and recognized as profit or loss in next year. The aforementioned accrued remunerations to employees and directors were the same as the amounts resolved by the Board of Directors, which were all paid in cash. Related information is available on the Market Observation Post System website of Taiwan Stock Exchange.

(s) Non-operating income and loss

(i) Interest income

	2023	2022
Interest income from bank deposits	\$ 9,336	1,450
Interest income from loans to related parties (note 7(c))	-	216
	<u>\$ 9,336</u>	<u>1,666</u>

(ii) Other income

	2023	2022
Dividend income	<u>\$ 6,965</u>	<u>10,629</u>

(iii) Other gains and losses

	2023	2022
Foreign currency exchange gains, net	\$ 4,109	9,485
Rental income (note 6(k))	323	300
Losses on disposal of property, plant and equipment	-	(32)
Others	<u>84</u>	<u>2,029</u>
	<u>\$ 4,516</u>	<u>11,782</u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(iv) Finance costs

	2023	2022
Interest expense on lease liabilities	<u><u>\$ 80</u></u>	<u><u>40</u></u>

(t) Financial instruments

(i) Categories of financial instruments

1) Financial assets

	December 31, 2023	December 31, 2022
Financial assets measured at fair value through other comprehensive income	\$ 281,591	124,240
Financial assets measured at amortized cost (loans and receivables):		
Cash and cash equivalents	849,203	814,973
Accounts receivable (including related parties)	330,469	273,333
Other receivables (including related parties)	1,241	2,145
Refundable deposits	<u>1,801</u>	<u>1,856</u>
	<u><u>\$ 1,464,305</u></u>	<u><u>1,216,547</u></u>

2) Financial liabilities

	December 31, 2023	December 31, 2022
Financial liabilities measured at amortized cost:		
Accounts payable (including related parties)	\$ 337,424	257,616
Other payables (including related parties)	87,409	101,328
Lease liabilities	3,592	1,208
Guarantee deposits received	<u>1,500</u>	<u>1,500</u>
	<u><u>\$ 429,925</u></u>	<u><u>361,652</u></u>

(ii) Fair value information

1) Financial instruments not measured at fair value

The Company considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values.

2) Financial instruments measured at fair value

The following financial instruments are measured at fair value on a recurring basis.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

The table below analyzes the financial instruments measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identical 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 liabilities that are not based on observable market data (unobservable inputs).

December 31, 2023				
Fair value				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income:				
Domestic listed stock	\$ 281,591	-	-	281,591
Unlisted stock	-	-	-	-
	<u><u>\$ 281,591</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>281,591</u></u>

December 31, 2022				
Fair value				
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income:				
Domestic listed stock	\$ 124,240	-	-	124,240
Unlisted stock	-	-	-	-
	<u><u>\$ 124,240</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>124,240</u></u>

There were no transfers among fair value hierarchies for the years ended December 31, 2023 and 2022.

- 3) Valuation techniques and inputs used for financial instruments measured at fair value
 - a) The fair values of financial assets with standard terms and conditions and traded on active markets are determined with reference to quoted market prices (e.g., listed stocks).
 - b) The fair value of unlisted stocks in Level 3 fair value hierarchy is estimated by using the market approach and is determined by reference to recent financing activities, valuations of similar companies, market conditions, and other economic indicators. The significant unobservable input is the liquidity discount. No quantitative information is disclosed as the possible changes in liquidity discount would not cause significant potential financial impact.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(u) Financial risk management

The Company is exposed to credit risk, liquidity risk, and market risk. The Company has disclosed the information on exposure to the aforementioned risks and the Company's policies and procedures to measure and manage those risks as well as the quantitative information below.

(i) Credit risk

1) The maximum exposure to credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents, receivables from customers, other receivables. The maximum exposure to credit risk is equal to the carrying amount of the Company's financial assets.

2) Concentration of credit risk

The Company has established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. As of December 31, 2023 and 2022, 77% and 83%, respectively, of accounts receivable (including related parties) were from three customer. The Company continuously evaluates the credit quality of customers to minimize the credit risk.

3) Credit risk from receivables

Refer to note 6(c) for credit risk exposure of accounts receivable. Other financial assets measured at amortized cost include other receivables and refundable deposits. Abovementioned financial assets are considered low-credit-risk financial assets, and thus, the loss allowance is measured using 12-months ECL. Refer to note 4(f) for descriptions about how the Company determines the credit risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in settling its financial liabilities by delivering cash or another financial assets. The Company manages liquidity risk by monitoring regularly the current and mid-term to long-term cash demand, maintaining adequate cash, and ensuring compliance with the terms of the loan agreements.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>
December 31, 2023					
Non-derivative financial liabilities:					
Accounts payable (including related parties)	\$ 337,424	337,424	-	-	-
Other payables (including related parties)	87,409	87,409	-	-	-
Guarantee deposits received	1,500	-	60	-	1,440
Lease liabilities	3,625	1,914	1,283	428	-
	<u>429,958</u>	<u>426,747</u>	<u>1,343</u>	<u>428</u>	<u>1,440</u>

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-5 years</u>
December 31, 2022					
Non-derivative financial liabilities:					
Accounts payable (including related parties)	\$ 257,616	257,616	-	-	-
Other payables (including related parties)	101,328	101,328	-	-	-
Guarantee deposits received	1,500	-	-	60	1,440
Lease liabilities	1,210	1,210	-	-	-
	<u>361,654</u>	<u>360,154</u>	<u>-</u>	<u>60</u>	<u>1,440</u>

(iii) Market risk

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

1) Foreign currency risk

The Company is exposed to foreign currency risk on sales and purchase transactions that are denominated in a currency other than the functional currency of the Company.

a) Exposure to foreign currency risk

At the reporting date, the carrying amounts of the Company's monetary assets and liabilities denominated in a currency other than the functional currency of the Company were as follows:

	<u>December 31, 2023</u>			<u>December 31, 2022</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 13,186	30.735	405,272	15,459	30.708	474,715
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	11,110	30.735	341,466	9,678	30.708	297,192

b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from cash and cash equivalents and accounts receivable (payable) (including related parties) that are denominated in foreign currencies. As of December 31, 2023 and 2022, a 1% depreciation or appreciation of the TWD against the USD would have affected the Company's income (loss) before tax for the years ended December 31, 2023 and 2022 by \$638 and \$1,775, respectively. This analysis assumes that all other variables remain constant and is performed on the same basis for the current and prior periods.

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

2) Other market price risk

The Company is exposed to the risk of price fluctuation in securities resulting from its investment in publicly traded stocks. The Company supervises the equity price risk actively and manages the risk based on fair value. The Company also has strategic investments in privately held stocks, in which the Company does not actively participate in their trading.

Assuming a hypothetical increase or decrease of 5% in equity prices of the equity investments at each reporting date, the other comprehensive income for the years ended December 31, 2023 and 2022, would have increased or decreased by \$14,080 and \$6,212, respectively.

(v) Capital management

In consideration of the industry dynamics and future developments, as well as external environment factors, the Company maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders.

The Company's liability-to-equity ratio at the end of each reporting period was as follows:

	December 31, 2023	December 31, 2022
Total liabilities	\$ 503,889	418,183
Total equity	\$ 1,273,596	1,050,026
Liability-to-equity ratio	39.56 %	39.83 %

(w) Investing and financing activities not affecting cash flows

(i) Refer to note 6(g) for a description of acquisition of the right-of-use assets through leases.

(ii) The reconciliation of liabilities arising from financing activities was as follows:

	January 1, 2023	Cash flows	Non-cash changes in leases	December 31, 2023
Guarantee deposits received	\$ 1,500	-	-	1,500
Lease liabilities	1,208	(5,130)	7,514	3,592
Total liabilities from financing activities	\$ 2,708	(5,130)	7,514	5,092

	January 1, 2022	Cash flows	Non-cash changes in leases	December 31, 2022
Guarantee deposits received	\$ 1,546	(46)	-	1,500
Lease liabilities	2,806	(3,468)	1,870	1,208
Total liabilities from financing activities	\$ 4,352	(3,514)	1,870	2,708

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

7. Related-party transactions

(a) Parent company and ultimate controlling party

Acer Incorporated is the parent company and the ultimate controlling party of the Company and owns 63.54% and 65.51%, respectively, of the outstanding shares of the Company as of December 31, 2023 and 2022. Acer Incorporated has issued the consolidated financial statements for public use.

(b) Related party name and categories

The followings are the Company's subsidiaries and related parties that have had transactions with the Company during the reporting periods:

<u>Name of related party</u>	<u>Relationship with the Company</u>
Acer Incorporated ("Acer")	The parent company and the ultimate controlling party of the Company
Gadgetek (Shanghai) Limited ("GCN")	The Company's subsidiary
Other related parties:	
Acer America corporation ("AAC")	Acer's subsidiary
Acer Computer Australia Pty. Limited ("ACA")	Acer's subsidiary
Acer Computer Co., Ltd. ("ATH")	Acer's subsidiary
Acer Computer (Far East) Limited ("AFE")	Acer's subsidiary
Acer Computer (Singapore) Pte. Ltd. ("ACS")	Acer's subsidiary
Acer Europe SA ("AEG")	Acer's subsidiary
ACER INDIA PRIVATE LIMITED ("AIL")	Acer's subsidiary
Acer Japan Corporation ("AJC")	Acer's subsidiary
Acer Philippines, Inc. ("APHI")	Acer's subsidiary
Acer Service Corporation ("ASC")	Acer's subsidiary
Acer Sales and Services SDN BHD ("ASSB")	Acer's subsidiary
Acer Vietnam Co., Ltd. ("AVN")	Acer's subsidiary
Asplex Sp. z o.o. ("APX")	Acer's subsidiary
PT. Acer Indonesia ("AIN")	Acer's subsidiary
PT. Acer Manufacturing Indonesia ("AMI")	Acer's subsidiary
AOPEN Computer B.V. ("AOE")	Acer's subsidiary
Acer e-Enabling Service Business Inc. ("AEB")	Acer's subsidiary
Acer Being Communication Inc. ("ABC")	Acer's subsidiary
Acer ITS Inc. ("ITS")	Acer's subsidiary
Acer Gaming Inc. ("AGM")	Acer's subsidiary
Acer AI Cloud Inc. ("AIC")	Acer's subsidiary

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
Acer Healthcare Inc. (“ABHI”)	Acer’s subsidiary
Acer Cyber Security Incorporated (“ACSI”)	Acer’s subsidiary
Weblink International Inc. (“WLII”)	Acer’s subsidiary
Altos Computing Inc. (“ALT”)	Acer’s subsidiary
Highpoint Service Network Corporation (“HSNC”)	Acer’s subsidiary
Xplova Inc. (“XPL”)	Acer’s subsidiary
Aspire Service & Development Inc. (“ASDI”)	Acer’s subsidiary
MPS Energy Inc. (“MPS”)	Acer’s subsidiary
AcerPure Inc. (“API”)	Acer’s subsidiary
Acer Foundation	Acer’s substantive related party

(c) Significant related-party transactions

(i) Revenue

The amounts of significant sales to related parties were as follows:

	<u>2023</u>	<u>2022</u>
Acer	\$ 970,455	952,666
Other related parties	219,624	175,751
	<u><u>\$ 1,190,079</u></u>	<u><u>1,128,417</u></u>

The payment terms of sales to related parties are not significantly different from those with third-party customers. The selling prices of sales to related parties are determined depending on the economic environment, market competition and the specifications of products, and are not comparable to those with third-party customers.

(ii) Purchases and other cost of revenue

The amounts of significant purchases and other cost of revenue from related parties were as follows:

	<u>2023</u>	<u>2022</u>
Acer	\$ 28,511	6,293
Other related parties	3,274	2,522
	<u><u>\$ 31,785</u></u>	<u><u>8,815</u></u>

The purchase prices with related parties are not comparable to those with third-party vendors as the specifications of products are different. There are no significant differences between the payment terms for related parties and those for third-party vendors.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

- (iii) In response to strengthen its layout in the patent and operation development needs, the Company purchased patents from Acer and XPL for considerations of \$1,794 and \$376, respectively, in 2022. The related payables were classified as other payables to related parties at December 31, 2022. The related payables were fully paid as of December 31, 2023.

- (iv) Operating expenses

The operating expenses related to the management consulting service, system maintenance service and technology development provided by related parties were as follows:

<u>Account</u>	<u>Related-party categories</u>	<u>2023</u>	<u>2022</u>
Operating expenses	Acer	\$ 4,869	6,247
Operating expenses	Other related parties	9,235	1,186
		<u>\$ 14,104</u>	<u>7,433</u>

- (v) Lease

The Company leased office premises from Acer and the rent is determined with reference to the nearby office rental rates. In 2023 and 2022, additions to right-of-use assets and lease liabilities amounted to \$2,503 and \$1,870, respectively. For the years ended December 31, 2023 and 2022, the related interest expenses on lease liabilities amounted to \$22 and \$4, respectively. As of December 31, 2023 and 2022, the balances of the lease liabilities amounted to \$630 and \$803, respectively.

- (vi) Loans to related parties

The amounts of loans to related parties actually drawn were as follows:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Acer	\$ -	-
Interest rate		0.6%

Interest income related to loans to the parent company in 2022 amounted to \$216.

- (vii) Defined benefit liabilities arising from employees transfer

Due to employees transfer among affiliates, the Company assumed employees' service years under defined benefit plan in its affiliates, wherein the defined benefit liabilities were transferred to the Company. As of December 31, 2023 and 2022, related receivables amounted to \$0 and \$929, respectively, were recognized in other receivables from related parties.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(viii) Accounts receivables

The receivables from related parties as a result of the abovementioned sales and employees transfer were as follows:

<u>Account</u>	<u>Related-party categories</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Accounts receivable from related parties	Acer	\$ 206,865	173,919
Accounts receivable from related parties	AEG	2,967	27,164
Accounts receivable from related parties	Other related parties	40,044	23,339
Other receivables from related parties	Acer	-	929
		<u>\$ 249,876</u>	<u>225,351</u>

(ix) Accounts payables

The payables to related parties as a result of the abovementioned purchases, services cost, sales allowances and payments made by related parties on behalf of the Company were as follows:

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Accounts payable to related parties	Acer	\$ 18,873	1,189
Accounts payable to related parties	Other related parties	1,969	164
Other payables to related parties	Acer	4,059	8,474
Other payables to related parties	Other related parties	1,403	615
Refund liabilities — related parties	Acer	5	248
Refund liabilities — related parties	Other related parties	5,958	1,070
		<u>\$ 32,267</u>	<u>11,760</u>

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(x) Organizational restructuring

As stated in Note 1 to the parent-company-only financial statements, the Company acquired gaming peripherals from Acer Gaming Inc. on March 17, 2022 for a consideration of \$5,346. The carrying amounts of assets and liabilities were as follows:

Assets:

Accounts receivable	\$ 366
Accounts receivable from related parties	10,601
Inventories	<u>25,029</u>
Subtotal	<u>35,996</u>

Liabilities

Accounts payable	(8,923)
Accounts payable to related parties	(2,629)
Refund liabilities	(132)
Other payables to related parties	(16,020)
Accrued expenses	<u>(2,946)</u>
Subtotal	<u>(30,650)</u>

Net assets	<u><u>\$ 5,346</u></u>
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(xi) Others

The equity investment in Acer owned by the Company was classified as financial assets at fair value through other comprehensive income. In 2023 and 2022, dividend income amounted to \$6,457 and \$9,816, respectively.

(d) Compensation for key management personnel

	<u>2023</u>	<u>2022</u>
Short-term employee benefits	\$ 19,152	16,812
Post-employment benefits	<u>394</u>	<u>392</u>
	<u><u>\$ 19,546</u></u>	<u><u>17,204</u></u>

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ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

8. Pledged assets

The carrying values of pledged assets were as follows:

Assets	Pledged to secure	December 31, 2023	December 31, 2022
Refundable deposits	Guarantee for project fulfillment	\$ 1,801	1,856

9. Significant commitments and contingencies: None

10. Significant loss from disaster: None

11. Significant subsequent events: None

12. Others

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

	2023			2022		
	Cost of revenue	Operating expenses	Total	Cost of revenue	Operating expenses	Total
Employee benefits:						
Salaries	-	88,798	88,798	-	82,312	82,312
Insurance	-	5,643	5,643	-	5,217	5,217
Pension	-	2,048	2,048	-	2,486	2,486
Remuneration to directors	-	3,395	3,395	-	622	622
Others	-	2,002	2,002	-	2,923	2,923
Depreciation	-	5,667	5,667	-	3,916	3,916
Amortization	-	665	665	-	164	164

Additional information related to the number of employees and employee benefits of 2023 and 2022 was as follows:

	2023	2022
The number of employees	58	56
The number of non-employee directors	7	7
Average employee benefits	\$ 1,931	1,897
Average employee salaries	\$ 1,741	1,680
Average employee salaries adjustment rate	3.63 %	
Remuneration to supervisors	\$ -	-

Information on the Company's remuneration policy (including directors, managers, and employees) is as follows:

Remuneration to directors and managers is evaluated and reviewed by the Remuneration Committee periodically. For remuneration to employees, the Company annually performs salary surveys and reviews the salary benchmark to provide competitive awards to its employees.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

13. Additional disclosures

(a) Information on significant transactions:

The followings are the additional disclosures required by the Regulations Governing the Preparation of Financial Reports by Securities Issuers for the year ended December 31, 2023:

- (i) Financing provided to other parties: None
- (ii) Guarantee and endorsement provided to other parties: None
- (iii) Marketable securities held at the reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities):

(In Thousands of Shares)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	December 31, 2023				Note
				Shares	Carrying Value	Percentage of Ownership	Fair Value	
The Company	Stock: Royal Tek Company Ltd.	-	Financial assets at fair value through other comprehensive income — non-current	1,015	49,961	2.01 %	49,961	-
"	Stock: Acer	Parent/Subsidiary	"	4,305	231,630	0.14 %	231,630	-
"	Stock: Ability SHI-Pro Co., Ltd.	-	"	208	-	7.89 %	-	-

- (iv) Marketable securities for which the accumulated purchase or sale amounts exceed \$300 million or 20% of the paid-in capital: None
- (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None
- (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None
- (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital:

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable or (Payable)		Note
			Purchases / (Sales)	Amount	% of Total Purchases/ (Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total Notes/Accounts Receivable or (Payable)	
The Company	Acer	Parent/Subsidiary	(Sales)	(970,455)	58.72%	OA 60	Note 1	Note 2	206,865	62.60 %	-
GCN	ACCQ	Affiliates	(Sales)	(276,408)	63.82%	OA 60	Note 1	Note 2	107,784	100.00%	-

Note 1: The selling prices of sales to related parties depend on the economic environment, market competition and the specifications of products, and are not comparable to those with third-party customers.

Note 2: The payment terms of sales to related parties are not significantly different from those with third-party customers.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital:

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Loss Allowance	Note
					Amount	Action Taken			
The Company	Acer	Parent/Subsidiary	206,865	5.10	44,111	Under collection	119,985	-	-
GCN	ACCQ	Affiliates	107,784	1.56	2,087	Under collection	69,056	-	"

(ix) Information about derivative instrument transactions: None

(b) Information on investees: None

(c) Information on investment in Mainland China:

(i) Information on investments in Mainland China:

(In Thousands of US Dollars / New Taiwan Dollars)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2023	Investment flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2023	Net Income (Loss) of the Investee	% of Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of December 31, 2023	Accumulated Inward Remittance of Earnings as of December 31, 2023
					Outflow	Inflow						
GadgeTek (Shanghai) Limited ("GCN")	Sale of 3C peripherals	15,368 (USD 500)	Note 1	15,368 (USD 500)	-	-	15,368 (USD 500)	19,711	100.00 %	19,711	64,766	-

Note 1: Direct investment in Mainland China.

Note 2: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$30.735.

(ii) Limits on investment in Mainland China:

(In Thousands of US Dollars / New Taiwan Dollars)

Company Name	Accumulated Investment in Mainland China as of December 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
GadgeTek (Shanghai) Limited ("GCN")	15,368 (USD 500)	15,368 (USD 500)	764,158

Note 1: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$30.735.

(Continued)

ACER GADGET INC.
Notes to the Parent-Company-Only Financial Statements

(iii) Significant transactions with investee companies in Mainland China:

For the Company's significant direct or indirect transactions with investee companies in Mainland China for the year ended December 31, 2023, refer to the "Information on significant transactions" above.

(d) Major shareholders:

Major Shareholder's Name	Shareholding	Shares	Percentage
Acer Incorporated		39,308,288	63.54 %

14. Segment information

Refer to the consolidated financial statements for detailed information.

ACER GADGET INC.**Statement of Cash and Cash Equivalents****December 31, 2023****(Expressed in Thousands of New Taiwan Dollars)**

Item		Amount
Demand deposits and checking accounts	Note	\$ 87,733
Time deposits with original maturities less than three months	Interest rate: 1.32%~5.32%	761,470
		\$ 849,203

Note: The foreign currency deposits and spot exchange rate of each foreign currency at December 31, 2023 were as follows:

USD \$ 1,233	USD : NTD=1 : 30.7350
EUR \$ 314	EUR : NTD=1 : 33.9284

(Continued)

ACER GADGET INC.
Statement of Accounts Receivable
December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

<u>Client Name</u>	<u>Amount</u>
Client 1	\$ 26,996
Client 2	20,838
Client 3	7,837
Client 4	5,947
Client 5	5,367
Others (Note)	14,814
Less: loss allowance	<u>(1,206)</u>
	<u><u>\$ 80,593</u></u>

Note: The amount of individual client included in others did not exceed 5% of the account balance.

Statement of Inventories

<u>Item</u>	<u>Amount</u>		<u>Note</u>
	<u>Carrying Amount</u>	<u>Market Value</u>	
Raw materials	\$ 2,399	3,484	Market value at net realizable value
Finished goods and merchandise	<u>100,565</u>	<u>165,601</u>	Market value at net realizable value
	<u><u>\$ 102,964</u></u>	<u><u>169,085</u></u>	

(Continued)

ACER GADGET INC.

Statement of Movements of Financial Assets Measured at Fair Value through Other Comprehensive
Income—Non-current

For the year ended December 31, 2023

(Expressed in Thousands of New Taiwan Dollars / Shares)

Name of Financial Instrument	Beginning balance		Addition		Decrease		Unrealized Gain (Loss)	Ending Balance		Collateral
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount	
Stock: Royal Tek Company Ltd.	1,015	\$ 22,848	-	-	-	-	27,113	1,015	49,961	-
Stock: Acer	4,305	101,392	-	-	-	-	130,238	4,305	231,630	-
Stock: Ability SHI-Pro Co., Ltd.	208	-	-	-	-	-	-	208	-	-
		<u>\$ 124,240</u>		<u>-</u>		<u>-</u>	<u>157,351</u>		<u>281,591</u>	

Statement of Prepayments and Other Current Assets

December 31, 2023

(Expressed in Thousands of New Taiwan Dollars)

Item	Description	Amount
Prepayment for purchase		\$ 57,138
Overpaid VAT		3,355
Others (Note)		5,173
		<u>\$ 65,666</u>

Note: The amount of individual item included in others did not exceed 5% of the account balance.

(Continued)

ACER GADGET INC.

Statement of Movements of Investments Accounted for Using the Equity Method

For the year ended December 31, 2023

(Expressed in Thousands of New Taiwan Dollars / Shares)

Name of Investee	Beginning Balance		Addition		Decrease		Investment Income (Loss)	Translation Adjustments	Ending balance			Market Value or Net Assets Value		Collateral
	Shares	Amount	Shares	Amount	Shares	Amount (note)			Shares	Percentage of Ownership	Amount	Unit Price (In Dollars)	Total Amount	
Gadgetek (Shanghai) Limited	-	\$ 46,583	-	-	-	-	19,711	(1,528)	-	-	64,766	-	64,766	-

ACER GADGET INC.
Statement of Accounts Payable
December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

<u>Vendor Name</u>	<u>Amount</u>
Vendor A	\$ 85,354
Vendor B	53,407
Vendor C	40,784
Vendor D	29,985
Vendor E	16,594
Others (Note)	<u>90,458</u>
	\$ <u><u>316,582</u></u>

Note: The amount of individual vendor included in others did not exceed 5% of the account balance.

Statement of Other Payables

<u>Item</u>	<u>Amount</u>
Salaries and bonus payables	\$ 36,522
Royalty payable	10,240
Payables on professional service expense	5,995
Others (Note)	<u>29,190</u>
	\$ <u><u>81,947</u></u>

Note: The amount of individual item included in others did not exceed 5% of the account balance.

(Continued)

ACER GADGET INC.
Statement of Cost of Revenue
For the year ended December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

Item	Total
Raw materials, beginning of year	\$ 16,158
Add: Purchase of raw materials	306
Less: Reclassified to expenses	28
Sale of raw materials	5,237
Scrap of raw materials	290
Raw materials, end of year	<u>5,376</u>
Raw materials used	5,533
Manufacturing overhead and outsourced cost	<u>1,622</u>
Manufacturing cost	<u>7,155</u>
Add: Finished goods and merchandise, beginning of year	117,756
Purchase of finished goods and merchandise	1,339,309
Less: Reclassified to expenses	2,259
Scrap of finished goods and merchandise	158
Finished goods and merchandise, end of year	<u>129,185</u>
Cost of sales	1,332,618
Cost of sales on raw materials	5,237
Write-downs of inventories	5,072
Other operating cost	<u>11,563</u>
Cost of revenue	<u><u>\$ 1,354,490</u></u>

(Continued)

ACER GADGET INC.

Statement of Operating Expenses

For the year ended December 31, 2023

(Expressed in Thousands of New Taiwan Dollars)

Item	Selling expenses	Administrative expenses	Research and development expenses
Salaries	\$ 33,602	38,617	18,627
Freight	16,581	684	-
Advertisement expense	12,623	1	-
Professional service expense	3,439	15,664	42,368
Others (Note)	14,158	16,002	1,114
	<u>\$ 80,403</u>	<u>70,968</u>	<u>62,109</u>

Note: The amount of individual item included in others did not exceed 5% of the account balance.

For details of Movements of Property, Plant and Equipment, please refer to note 6(f).

For details of Movements of Right-of-Use Assets, please refer to note 6(g).

For details of Movements of Investment Property, please refer to note 6(h).

For details of Accounts Receivable from Related Parties and Accounts Payable to Related Parties, please refer to note 7.

For details of Other Receivables from Related Parties and Other Payables to Related Parties, please refer to note 7.

For details of Movements of Net Defined Benefit Assets, please refer to note 6(l).

For details of Deferred Income Tax Assets and Liabilities, please refer to note 6(m).

For details of Movements of Provisions—Current, please refer to note 6(j).

For details of Revenue, please refer to note 6(q).

For details of Interest Income, Other Gains and Losses and Finance Costs, please refer to note 6(s).