

HWACOM SYSTEMS INC.**Parent Company Only Financial Statements****With Independent Auditors' Report
For the Years Ended December 31, 2024 and 2023**

Address: 11F1, No.108, Hsin-Tai-Wu Rd., Sec.1 Hsi-Chih, New Taipei
Telephone: 886-2-2696-7155

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.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Non-Consolidated Balance Sheets	4
5. Non-Consolidated Statements of Comprehensive Income	5
6. Non-Consolidated Statements of Changes in Equity	6
7. Statements of Non-Consolidated Cash Flows	7
8. Notes to the Non-Consolidated Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the financial statements	8
(3) New standards, amendments and interpretations adopted	8~10
(4) Summary of material accounting policies	10~26
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	26~27
(6) Explanation of significant accounts	28~56
(7) Related-party transactions	57~58
(8) Assets pledged as security	58
(9) Commitments and contingencies	59
(10) Losses Due to Major Disasters	59
(11) Subsequent Events	59
(12) Other	60
(13) Other disclosures	
(a) Information on significant transactions	61
(b) Information on investees	62
(c) Information on investment in Mainland China	62
(d) Major shareholders	63
(14) Segment information	63
9. List of major account titles	64~71



安侯建業聯合會計師事務所
KPMG

台北市110615信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No. 7, Sec. 5,
Xinyi Road, Taipei City 110615, Taiwan (R.O.C.)

電話	Tel	+ 886 2 8101 6666
傳真	Fax	+ 886 2 8101 6667
網址	Web	kpmg.com/tw

Independent Auditors' Report

To the Board of Directors of HWACOM SYSTEMS INC.:

Opinion

We have audited the financial statements of HWACOM SYSTEMS INC. ("the Company"), which comprise the balance sheet as of December 31, 2024, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024, and its financial performance and its 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 Statements 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 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Revenue Recognition

Please refer to Note 4(n) for the accounting principles on revenue recognition and Note 6(s) for the description on revenue recognition.

(a) Description of key audit matter:

The Company's service projects include a variety of commodity services, such as computers, peripheral devices, software, and maintenance, and it is necessary to determine the performance obligation and the applicable methods of revenue recognition. Therefore, the test of revenue recognition is one of the key audit matters.

(b) Audit procedures performed

- Understanding and testing the design and implementation of internal controls for the sale cycle.
- Sampling the original order or contract and the documents that can confirm the transfer of control, reviewing the transaction terms in order to evaluate whether the revenue recognition complies with the relevant standards.
- Performing a reconciliation of various vouchers before and after the balance sheet date in order to determine the appropriate period for sales revenue recognizing in the financial statements.

2. Inventory valuation

Please refer to Note 4(g) for the accounting principles on inventory valuation and Note 6(d) for the description on inventory.

(a) Description of the key audit matter:

The Company is a system integration supplier of telecommunication media and internet information, the proportion of inventory value to total assets is relatively large, and the valuation of inventory involves management's estimation uncertainty. If the net realizable value assessment is inappropriate, it will result in the financial statements being misrepresented. Therefore, the test of inventory valuation is one of the key audit matters.

(b) Audit procedures performed:

- Obtain and review the inventory aging report, analyze the changes in inventory aging; obtain the assessment data of the net realizable value of inventories, and evaluate the reasonableness of the basis used to calculate the net realizable value of inventories.
- Perform sampling procedures to verify the accuracy of the inventory aging and the detailed list of net realizable value of inventories.
- Evaluate whether the management's disclosure regarding inventory valuation is appropriate.

Other Matter

The financial statements of the Company as of and for the year ended December 31, 2023, were audited by other auditors and issued unmodified opinions at March 7, 2024.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this 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 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 Huang, Hsin-Ting and Chih, Shih-Chin.

KPMG

Taipei, Taiwan (Republic of China)
March 12, 2025

Notes to Readers

The accompanying parent company only financial statements are intended only to present the statement of 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 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 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)
HWACOM SYSTEMS INC.

Non-Consolidated Balance Sheets

December 31, 2024 and 2023

(Expressed in Thousands of New Taiwan Dollar)

		December 31, 2024		December 31, 2023				December 31, 2024		December 31, 2023	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets						Liabilities and Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (Note 6(a))	\$ 931,593	15	1,077,603	21	2100	Short-term borrowings (Note 6(i))	\$ 1,036,990	17	326,996	7
1110	Financial assets at fair value through profit or loss, current	17,313	-	8,175	-	2110	Short-term notes and bills payable	50,000	1	-	-
1136	Financial assets measured at amortized cost, current (Note 6(a))	-	-	100,000	2	2130	Contract liabilities, current (Note 6(s))	938,038	15	737,465	14
1140	Contract assets, current (Note 6(s))	48,376	1	47,481	1	2170	Accounts payable (Notes 6(j) and 7)	976,070	16	1,142,675	22
1150	Notes receivable, net (Notes 6(c) and (s))	157	-	442	-	2200	Other payables (Notes 6(k) and 7)	321,579	5	271,731	5
1170	Accounts receivable, net (Notes 6(c), (s) and 7)	1,570,857	26	1,241,496	24	2230	Current tax liabilities (Note 6(o))	15,644	-	16,974	-
1200	Other receivables	1,408	-	25,658	-	2250	Provisions, current	-	-	14,667	-
130X	Inventories (Note 6(d))	1,892,300	31	1,085,634	21	2280	Lease liabilities, current	26,165	1	24,489	1
1410	Prepayments (Note 6(e))	336,952	6	182,604	4	2300	Other current liabilities	17,159	-	33,443	1
1470	Other current assets (Notes 6(h) and 8)	302,212	5	338,279	7	2322	Long-term borrowings, current portion (Note 6(l))	5,278	-	5,226	-
Total current assets		5,101,168	84	4,107,372	80	Total current liabilities		3,386,923	55	2,573,666	50
Non-current assets:						Non-Current liabilities:					
1517	Financial assets at fair value through other comprehensive income, non-current (Note 6(b))	156,473	3	139,392	2	2540	Long-term borrowings (Note 6(l))	16,026	-	21,300	-
1550	Investments accounted for using equity method (Note 6(f))	100,318	2	100,245	2	2550	Provisions, non-current (Note 9)	12,283	-	12,283	-
1600	Property, plant and equipment(Notes 6(g) and 8)	247,155	4	265,230	5	2570	Deferred tax liabilities (Note 6(o))	23,681	1	19,645	-
1755	Right-of-use assets	42,638	-	46,355	1	2580	Lease liabilities, non-current	17,022	-	22,469	1
1780	Intangible assets	46,000	1	40,573	1	2600	Other non-current liabilities (Note 6(n))	97,894	2	98,430	2
1840	Deferred tax assets (Note 6(o))	34,890	-	34,453	1	Total non-current liabilities		166,906	3	174,127	3
1900	Other non-current assets (Notes 6(h) and 8)	364,265	6	427,121	8	Total liabilities		3,553,829	58	2,747,793	53
Total non-current assets		991,739	16	1,053,369	20	Equit (Notes 6(p) and (q)):					
						3100	Common stock	1,410,502	23	1,410,502	27
						3200	Capital surplus	412,622	7	402,974	8
						Retained earnings:					
						3310	Legal reserve	130,690	2	123,877	3
						3350	Unappropriated earnings	501,187	8	418,000	8
						Total retained earnings		631,877	10	541,877	11
						3400	Other equity	84,077	2	70,842	1
						3500	Treasury shares	-	-	(13,247)	-
						Total equity		2,539,078	42	2,412,948	47
Total assets		\$ 6,092,907	100	5,160,741	100	Total liabilities and equity		\$ 6,092,907	100	5,160,741	100

See accompanying notes to parent company only financial statements.

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

HWACOM SYSTEMS INC.**Non-Consolidated Statements of Comprehensive Income****For the years ended December 31, 2024 and 2023****(Expressed in Thousands of New Taiwan Dollar , except for Earnings Per Share)**

		2024		2023	
		Amount	%	Amount	%
4000	Operating revenues (Notes 6(s) and 7)	\$ 5,418,861	100	5,211,993	100
5000	Operating costs (Notes 6(d), (n) and 7)	4,241,012	78	4,172,982	80
5910	Unrealized profit (loss) from sales	-	-	(45)	-
5920	Realized profit (loss) on from sales	45	-	-	-
5950	Gross profit	<u>1,177,894</u>	<u>22</u>	<u>1,038,966</u>	<u>20</u>
6000	Operating expenses (Notes 6(c), (n), (q) and (t)):				
6100	Selling expenses	653,392	12	757,248	15
6200	Administrative expenses	280,564	5	224,526	4
6300	Research and development expenses	66,671	1	53,551	1
6450	Expected credit losses (reversal)	9,583	-	(8,870)	-
	Total operating expenses	<u>1,010,210</u>	<u>18</u>	<u>1,026,455</u>	<u>20</u>
6900	Net operating income	<u>167,684</u>	<u>4</u>	<u>12,511</u>	<u>-</u>
7000	Non-operating income and expenses (Notes 6(f) and (u)):				
7100	Interest income	11,616	-	9,440	-
7010	Other income	62,167	1	74,396	1
7020	Other gains and losses	(52,573)	(1)	(14,567)	-
7050	Finance costs	(18,293)	-	(12,295)	-
7070	Share of profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method	(1,695)	-	1,358	-
	Total non-operating income and expenses	<u>1,222</u>	<u>-</u>	<u>58,332</u>	<u>1</u>
7900	Profit before tax	<u>168,906</u>	<u>4</u>	<u>70,843</u>	<u>1</u>
7950	Less: Income tax expenses (Note 6(o))	<u>38,326</u>	<u>1</u>	<u>13,223</u>	<u>-</u>
8200	Net income	<u>130,580</u>	<u>3</u>	<u>57,620</u>	<u>1</u>
8300	Other comprehensive income:				
8310	Items that may not be reclassified subsequently to profit or loss				
8311	Losses on remeasurements of defined benefit plans	1,807	-	4,755	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	17,081	-	14,403	-
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	(564)	-	221	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	3,929	-	2,710	-
	Total items that may not be reclassified subsequently to profit or loss	<u>14,395</u>	<u>-</u>	<u>16,669</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	286	-	(166)	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-
	Total items that may be reclassified subsequently to profit or loss	<u>286</u>	<u>-</u>	<u>(166)</u>	<u>-</u>
8300	Other comprehensive income	<u>14,681</u>	<u>-</u>	<u>16,503</u>	<u>-</u>
8500	Total comprehensive income	<u>\$ 145,261</u>	<u>3</u>	<u>74,123</u>	<u>1</u>
	Earnings per share (NT dollars) (Note 6(r))				
9750	Basic earnings per share	<u>\$ 0.93</u>		<u>0.42</u>	
9850	Diluted earnings per share	<u>\$ 0.92</u>		<u>0.41</u>	

See accompanying notes to parent company only financial statements.

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

HWACOM SYSTEMS INC.**Non-Consolidated Statements of Changes in Equity****For the years ended December 31, 2024 and 2023****(Expressed in Thousands of New Taiwan Dollar)**

	Share capital		Retained Earnings		Other Equity				
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations Financial Statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total other equity interest	Treasury shares	Total Equity
Balance on January 1, 2023	<u>\$ 1,337,776</u>	<u>359,937</u>	<u>109,359</u>	<u>406,213</u>	<u>(680)</u>	<u>65,523</u>	<u>64,843</u>	<u>(13,247)</u>	<u>2,264,881</u>
Net income for the year ended December 31, 2023	-	-	-	57,620	-	-	-	-	57,620
Other comprehensive income for the year ended December 31, 2023	-	-	-	3,804	(166)	12,865	12,699	-	16,503
Total comprehensive income for the year ended December 31, 2023	-	-	-	61,424	(166)	12,865	12,699	-	74,123
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	14,519	(14,519)	-	-	-	-	-
Cash dividends of common stock	-	-	-	(41,818)	-	-	-	-	(41,818)
Other changes in capital surplus:									
Stock option recognized by issuance of convertible bonds	-	(5,058)	-	-	-	-	-	-	(5,058)
Transfer of corporate bonds payables to ordinary shares	72,726	48,095	-	-	-	-	-	-	120,821
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	6,700	-	(6,700)	(6,700)	-	-
Other	-	-	(1)	-	-	-	-	-	(1)
Balance on December 31, 2023	<u>1,410,502</u>	<u>402,974</u>	<u>123,877</u>	<u>418,000</u>	<u>(846)</u>	<u>71,688</u>	<u>70,842</u>	<u>(13,247)</u>	<u>2,412,948</u>
Net income for the year ended December 31, 2024	-	-	-	130,580	-	-	-	-	130,580
Other comprehensive income for the year ended December 31, 2024	-	-	-	1,446	286	12,949	13,235	-	14,681
Total comprehensive income for the year ended December 31, 2024	-	-	-	132,026	286	12,949	13,235	-	145,261
Appropriation and distribution of retained earnings:									
Legal reserve	-	-	6,812	(6,812)	-	-	-	-	-
Cash dividends of common stock	-	-	-	(42,027)	-	-	-	-	(42,027)
Treasury shares transferred to employees	-	9,648	-	-	-	-	-	13,247	22,895
Other	-	-	1	-	-	-	-	-	1
Balance on December 31, 2024	<u><u>\$ 1,410,502</u></u>	<u><u>412,622</u></u>	<u><u>130,690</u></u>	<u><u>501,187</u></u>	<u><u>(560)</u></u>	<u><u>84,637</u></u>	<u><u>84,077</u></u>	<u><u>-</u></u>	<u><u>2,539,078</u></u>

See accompanying notes to parent company only financial statements.

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

HWACOM SYSTEMS INC.**Statements of Non-Consolidated Cash Flows****For the years ended December 31, 2024 and 2023****(Expressed in Thousands of New Taiwan Dollar)**

	<u>2024</u>	<u>2023</u>
Cash flows from (used in) operating activities:		
Profit before tax	\$ 168,906	70,843
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	83,088	78,189
Amortization expense	33,655	24,563
Expected credit loss (reversal)	9,583	(8,870)
Net gain on financial assets or liabilities at fair value through profit or loss	(9,138)	(3,634)
Interest expense	18,293	12,295
Interest income	(11,616)	(9,440)
Dividend income	(1,143)	(1,283)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	1,695	(1,358)
Gain on disposal of property, plan and equipment	(243)	(144)
Gain on disposal of intangible assets	(4)	-
Unrealized profit (loss) from sales	-	45
Realized loss (profit) on from sales	(45)	-
Share-based payments	11,369	-
Total adjustments to reconcile profit (loss)	<u>135,494</u>	<u>90,363</u>
Changes in operating assets and liabilities:		
Increase in contract assets	(895)	(17,066)
Decrease (increase) in notes receivable	285	(17)
(Increase) decrease in accounts receivable	(338,944)	841,881
Decrease (increase) in other receivables	24,729	(24,281)
(Increase) decrease in inventories	(809,812)	73,404
(Increase) decrease in prepayments	(154,348)	74,717
Decrease (increase) in other current assets	92,633	(127,294)
Increase (decrease) in contract liabilities	200,573	(160,091)
(Decrease) increase in accounts payable	(166,605)	59,802
Increase (decrease) in other payables	55,609	(16,038)
(Decrease) increase in provisions	(14,667)	14,667
(Decrease) increase in receipts in advance	(17,137)	17,405
Increase (decrease) in other current liabilities	853	(1,085)
(Decrease) increase in net defined benefit liabilities	(1,008)	707
Total adjustments	<u>(993,240)</u>	<u>827,074</u>
Cash (outflow) inflow generated from operations	(824,334)	897,917
Interest received	11,137	9,062
Dividends received	1,143	1,283
Interest paid	(17,647)	(11,467)
Income taxes paid	(39,987)	(15,274)
Net cash flows from (used in) operating activities	<u>(869,688)</u>	<u>881,521</u>

See accompanying notes to parent company only financial statements.

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

HWACOM SYSTEMS INC.**Statements of Non-Consolidated Cash Flows (CONT'D)****For the years ended December 31, 2024 and 2023****(Expressed in Thousands of New Taiwan Dollar)**

	<u>2024</u>	<u>2023</u>
Cash flows from (used in) investing activities:		
Disposal of financial assets at fair value through other comprehensive income	-	7,121
Acquisition of financial assets measured at amortized cost	(118,236)	(100,000)
Disposal of financial assets measured at amortized cost	218,236	-
Acquisition of investments accounted for using equity method	(2,000)	(51,414)
Acquisition of property, plant and equipment	(38,488)	(85,220)
Disposal of property, plant and equipment	578	1,586
(Increase) decrease in other current assets	(56,566)	2,247
Increase in refundable deposits	(386,167)	(613,770)
Decrease in refundable deposits	441,701	515,784
Acquisition of intangible assets	(39,175)	(42,108)
Disposal of intangible assets	97	9
Increase in prepayments for equipment	-	(92,256)
Decrease in prepayments for equipment	7,322	103,405
Net cash flows from (used in) investing activities	<u>27,302</u>	<u>(354,616)</u>
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	2,271,124	968,637
Decrease in short-term borrowings	(1,561,130)	(1,062,959)
Increase in short-term notes and bills payable	250,000	-
Decrease in short-term notes and bills payable	(200,000)	-
Repayments of corporate bonds	-	(400)
Repayments of long-term borrowings	(5,222)	(5,175)
Increase in guarantee deposits received	7,029	1,295
Decrease in guarantee deposits received	(4,749)	(3,648)
Payment of lease liabilities	(30,175)	(30,672)
Cash dividends paid	(42,027)	(41,818)
Treasury shares sold to employees	11,526	-
Net cash flows from (used in) financing activities	<u>696,376</u>	<u>(174,740)</u>
Net (decrease) increase in cash and cash equivalents	(146,010)	352,165
Cash and cash equivalents at beginning of period	<u>1,077,603</u>	<u>725,438</u>
Cash and cash equivalents at end of period	<u><u>\$ 931,593</u></u>	<u><u>1,077,603</u></u>

See accompanying notes to parent company only financial statements.

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

HWACOM SYSTEMS INC.

Notes to Non-consolidated Financial Statements

For the years ended December 31, 2024 and 2023

(Expressed in Thousands of New Taiwan Dollar, unless otherwise specified)

(1) Company history

HWACOM SYSTEMS INC. (the “Company”). Was approved for establishment by the Ministry of Economic Affairs, R.O.C. on May 4, 1994. The registered address is 11F1, No. 108, Hsin-Tai-Wu Rd., Sec. 1 Hsi-Chih, New Taipei. . The main business items include telecommunication integration system services, IP broadband network service, media industry service, smart city business, and enterprise customers, etc.

(2) Approval date and procedures of the financial statements

These financial statements were authorized for issue by the Board of Directors on March 12, 2025.

(3) New standards, amendments and interpretations adopted

- (a) The impact of the IFRS Accounting Standards endorsed by the Financial Supervisory Commission, R.O.C. which have already been adopted.

The Company has initially adopted the following new amendments, which do not have a significant impact on its financial statements, from January 1, 2024:

- 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”

- (b) The impact of IFRS issued 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, 2025, would not have a significant impact on its financial statements:

- Amendments to IAS 21 “Lack of Exchangeability”

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

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

The following new and amended standards, which may be relevant to the Company, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
IFRS 18 "Presentation and Disclosure in Financial Statements"	<p>The new standard introduces three categories of income and expenses, two income statement subtotals and one single note on management performance measures. The three amendments, combined with enhanced guidance on how to disaggregate information, set the stage for better and more consistent information for users, and will affect all the entities.</p> <ul style="list-style-type: none"> • A more structured income statement: under current standards, companies use different formats to present their results, making it difficult for investors to compare financial performance across companies. The new standard promotes a more structured income statement, introducing a newly defined 'operating profit' subtotal and a requirement for all income and expenses to be allocated between three new distinct categories based on a company's main business activities. • Management performance measures (MPMs): the new standard introduces a definition for management performance measures, and requires companies to explain in a single note to the financial statements why the measure provides useful information, how it is calculated and reconcile it to an amount determined under IFRS Accounting Standards. • Greater disaggregation of information: the new standard includes enhanced guidance on how companies group information in the financial statements. This includes guidance on whether information is included in the primary financial statements or is further disaggregated in the notes. 	January 1, 2027

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

The Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

The Company does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its 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”
- IFRS 19 “Subsidiaries without Public Accountability: Disclosures”
- Amendments to IFRS 9 and IFRS 7 “Amendments to the Classification and Measurement of Financial Instruments”
- Annual Improvements to IFRS Accounting Standards—Volume 11
- Amendments to IFRS 9 and IFRS 7 “Contracts Referencing Nature-dependent Electricity”

(4) Summary of material accounting policies:

The material accounting policies presented in the parent company only financial statements are summarized below. The following accounting policies were applied consistently throughout the periods presented in the parent company only financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of the plan assets less the present value of the defined benefit obligation, limited as explained in note 4(p).

(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 parent company only financial statements are presented in Taiwan New Dollar (TWD), which is the Company’s functional currency. All financial information presented in TWD has been rounded to the nearest thousand.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(c) Foreign currencies

(i) Foreign currency transactions

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

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- 1) an investment in equity securities designated as at fair value through other comprehensive income;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent that the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the presentation currency at the average exchange rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount 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, Exchange differences arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

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

The Company classifies the asset as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies the liability as current under one of the following criteria, and all other liabilities are classified as non-current.

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

(e) Cash and cash equivalents

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

(f) Financial instruments

Accounts receivables and debt securities issued 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 accounts 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 issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. 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 assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

2) Fair value through other comprehensive income (FVOCI)

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 on the principal amount outstanding.

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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

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

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

Dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established (normally the ex-dividend date).

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above (e.g. financial assets held for trading and those that are managed and whose performance is evaluated on a fair value basis) are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

4) Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated — e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Company's continuing recognition of the assets.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

5) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial assets on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company’s claim to cash flows from specified assets (e.g. non-recourse features)

6) 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, amortized costs, account receivables and notes receivable, other receivable, leases receivable, guarantee deposit paid and other financial assets) and contract assets.

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

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

The Company considers a financial asset to be in default when the financial asset is more than 90 days past due or the debtor is unlikely to pay its credit obligations to the Company in full.

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade which is considered to be BBB- or higher per Standard & Poor’s, Baa3 or higher per Moody’s or twA or higher per Taiwan Ratings’.

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 month 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.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECL 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 and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

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

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

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. For corporate customers, 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.

7) 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 statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

4) Financial liabilities

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

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

5) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. 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.

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

6) Offsetting of financial assets and liabilities

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

(g) Inventories

Inventories are recognized at cost at initial recognition, measured by perpetual inventory system, and the calculation of cost is by weighted-average cost. Inventories are valued at the lower of cost and net realizable value item by item, except inventories under the same categories. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

(h) Joint Arrangements

In preparing the individual financial statements, the Company evaluates its investments in subsidiaries over which it has control using the equity method. Under the equity method, the share of current period profit or loss and other comprehensive income in the individual financial statements is the same as the share attributable to the owners of the parent company in the consolidated financial statements. Similarly, the owners' equity in the individual financial statements is the same as the equity attributable to the owners of the parent company in the consolidated financial statements.

Changes in the Company's ownership interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions with owners.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Land is not depreciated.

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

1) buildings	31~50 years
2) office equipment	1~8 years
3) other equipment	1~8 years

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

(j) Leases

The Company assesses whether a contract is, or contains, a lease at the inception of the contract. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, then the contract is, or contains, a lease.

(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.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the 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 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
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured due to changes in the index or rate used to determine lease payments, changes in the amount expected to be payable under a residual value guarantee, or changes in the assessment of purchase, extension, or termination options, the carrying amount of the right-of-use asset is adjusted accordingly. If the carrying amount of the right-of-use asset is reduced to zero, any remaining remeasurement amount is recognized in profit or loss.

When the lease modifications that reduce the scope of the lease, the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease. The difference between this adjustment and the remeasured lease liability is recognized in profit or loss.

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

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

If an arrangement contains lease and non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term 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 of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

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

(k) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

- | | |
|----------------------------|------------|
| 1) Computer software | 1~5 years |
| 2) Other intangible assets | 1~10 years |

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

(l) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For 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 of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

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

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(n) Revenue recognition

The revenue from contracts with customers is primarily arising from the services of integration of electric information system, traffic control system and the planning and building of safety monitoring system. Revenue shall be recognized when the control of committed goods or services transferred to customers and the performance of obligations is fulfilled. The Company recognizes revenue based on the agreed prices of contracts or orders and takes into consideration of sales returns and allowances. The cumulative revenue shall be recognized only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

When control of goods and services has transferred to customers, but the Company does not have the unconditional right to receive the consideration, contract assets and revenue shall be recognized. A contract liability shall be recognized for the obligation to transfer goods or services to a customer for which the Company has received part of the consideration from the customer, and shall be transferred to revenue when the performance obligation is fulfilled subsequently.

(o) Government grants

The Company recognizes unconditional government grants as profit or loss as non-operating income when the grants become receivable. Other government grants related to assets are initially recognized as deferred income at fair value if there is a reasonable assurance that they will be received and the Company will comply with the conditions associated with the government grants; and they are then recognized in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Company for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

Government-assisted loans borrowed from financial institutions under government credit guarantees are considered as part of the fair value of the loans.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(p) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Company's net obligation, in respect of the defined benefit plan, is calculated 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 the plan asset.

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest), and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(q) Income taxes

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

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid 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 taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and at the time of the transaction (i) affects neither accounting nor taxable profits (losses) and (ii) does not give rise to equal taxable and deductible temporary differences;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the 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 the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

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.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(r) Earnings per share

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

(s) Share-based payment

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

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized in profit or loss.

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

(t) Operating segments

The Company has disclosed segment information in the consolidated financial statements; therefore, segment information is not disclosed in the individual financial statements.

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

In preparing these parent company only financial statements, management has made judgments and estimates about the future, including climate-related risks and opportunities, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis and are consistent with the Company's risk management and climate-related commitments where appropriate. Revisions to estimates are recognized prospectively in the period of the change and future periods.

There are no critical judgments in applying accounting policies that have significant effect on the amounts recognized in the parent company only financial statements.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows. Those assumptions and estimation have been updated to reflect the impact of COVID-19 pandemic:

(a) The loss allowance of account receivable

The Company has estimated the loss allowance of account receivables that is based on the risk of a default occurring and the rate of expected credit loss. The Company has considered historical experience, current economic conditions and forward-looking information at each reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs. The relevant assumptions and input values, please refer to note 6(c).

(b) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to note 6(d) for further description of the valuation of inventories.

The Company's accounting policies include measuring financial and non financial assets and liabilities at fair value through profit or loss.

The Company's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Company strives to use market observable inputs when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

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

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

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2024	December 31, 2023
Cash on hand and revolving funds	\$ 648	556
Demand and check deposits	930,945	1,046,362
Time deposits	-	30,685
Total	<u>\$ 931,593</u>	<u>1,077,603</u>

- (i) The aforesaid cash and cash equivalents were not pledged as collateral.
- (ii) For time deposits in pledge and non-restricted cash in banks (more than three months) reclassified to financial assets measured at amortized cost, The amounts classified as financial assets under current items on December 31, 2024 and 2023 were \$0 and \$100,000 thousand respectively.
- (iii) For interest rate risk and sensitivity analysis of the Company's financial assets and liabilities, please refer to Note 6(v).

(b) Financial assets at fair value through other comprehensive income

	December 31, 2024	December 31, 2023
Equity investments at fair value through other comprehensive income:		
Domestic Emerging Company shares	\$ 13,395	18,150
Unlisted stocks of domestic companies	12,983	8,983
Foreign public offering of company shares	130,095	112,259
Total	<u>\$ 156,473</u>	<u>139,392</u>

(i) Equity investments at fair value through other comprehensive income

The Company designated the investments shown above as equity securities at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for the long term strategic purposes.

During the ended December 31, 2024 and 2023, the dividends of \$643 thousand and \$833 thousand, respectively, related to equity investments at fair value through other comprehensive income held on the years then ended, were recognized.

- (ii) For credit risk and market risk, please refer to note 6(v).
- (iii) During the ended December 31, 2024 and 2023, none of the aforementioned financial assets at FVTPL were pledged as collateral.

(c) Notes and accounts receivable (including related parties)

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

	December 31, 2024	December 31, 2023
Notes receivable arose from operation	\$ 157	442
Less: Loss allowance	-	-
Subtotal	<u>157</u>	<u>442</u>
Accounts receivable	1,580,871	1,242,045
Installment accounts receivable	6,091	3,610
Less: Unrealized interest income installment accounts receivable	<u>(48)</u>	<u>(70)</u>
Subtotal	1,586,914	1,245,585
Less: Loss allowance	<u>(21,828)</u>	<u>(12,245)</u>
Subtotal	<u>1,565,086</u>	<u>1,233,340</u>
Accounts receivable-related parties	2,055	1,287
Less: Loss allowance	<u>-</u>	<u>-</u>
Subtotal	<u>2,055</u>	<u>1,287</u>
Finance lease receivable	3,809	7,067
Less: Unearned finance income on finance lease	<u>(93)</u>	<u>(198)</u>
Subtotal (total carrying amount)	3,716	6,869
Less: Loss allowance	<u>-</u>	<u>-</u>
Subtotal	<u>3,716</u>	<u>6,869</u>
Total	<u>\$ 1,571,014</u>	<u>1,241,938</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. To measure the expected credit losses, notes receivable and accounts receivable have been grouped based on shared credit risk characteristics that represent the ability of customers to pay all amounts due under the terms of the contract, as well as the incorporated forward looking information. The loss allowance provision were determined as follows:

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

December 31, 2024

Group 1

	<u>Gross carrying amount</u>	<u>Weighted average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,538,425	0%~0.05%	749
Less than 30 days overdue	13,125	0%~5.11%	671
31 to 90 days past due	16,030	0%~6.36%	1,019
91 to 180 days past due	3,397	0%~27.02%	918
More than 181 days past due	<u>168</u>	100%	<u>168</u>
	<u><u>\$ 1,571,145</u></u>		<u><u>3,525</u></u>

Group 2

	<u>Gross carrying amount</u>	<u>Weighted average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 3,490	0%~2.74%	96
Less than 30 days overdue	-	-	-
31 to 90 days past due	-	-	-
91 to 180 days past due	-	-	-
More than 181 days past due	<u>18,207</u>	100%	<u>18,207</u>
	<u><u>\$ 21,697</u></u>		<u><u>18,303</u></u>

December 31, 2023

Group 1

	<u>Gross carrying amount</u>	<u>Weighted average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 1,215,721	0%~0.07%	215
Less than 30 days overdue	4,413	0%~2.89%	32
31 to 90 days past due	1,037	0%~4.89%	13
91 to 180 days past due	-	-	-
More than 181 days past due	<u>397</u>	100%	<u>396</u>
	<u><u>\$ 1,221,568</u></u>		<u><u>656</u></u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

Group 2

	<u>Gross carrying amount</u>	<u>Weighted average loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 21,260	0%~4.46%	234
Less than 30 days overdue	-	-	-
31 to 90 days past due	-	-	-
91 to 180 days past due	-	-	-
More than 181 days past due	<u>11,355</u>	100%	<u>11,355</u>
	<u><u>\$ 32,615</u></u>		<u><u>11,589</u></u>

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

	<u>2024</u>	<u>2023</u>
Balance at January 1	\$ 12,245	21,115
Impairment losses recognized	9,583	-
Impairment losses reversed	<u>-</u>	<u>(8,870)</u>
Balance at December 31	<u><u>\$ 21,828</u></u>	<u><u>12,245</u></u>

- (i) The aforesaid notes and accounts receivables were not pledged as collateral.
- (ii) For credit risk and market risk of the Company, please refer to Note 6(v).
- (iii) A maturity analysis of operating lease payments, showing the undiscounted lease payments to be received after the reporting date, is as follows:

	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Less than one year	\$ 1,905	3,258
One to two years	1,904	1,905
Two to three years	-	1,904
Three to four years	-	-
Four to five years	-	-
More than five years	<u>-</u>	<u>-</u>
Total lease payments receivable	3,809	7,067
Less: Unearned finance income on finance lease	(93)	(198)
Less: Loss allowance	<u>-</u>	<u>-</u>
Present value of lease payments receivable	<u><u>\$ 3,716</u></u>	<u><u>6,869</u></u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(d) Inventories

	December 31, 2024	December 31, 2023
Merchandise	\$ <u>1,892,300</u>	<u>1,085,634</u>

The details of the cost of sales were as follows:

	2024	2023
Inventory that has been sold	\$ 4,227,067	4,177,614
Write-down of inventories (Reversal of write-downs)	<u>13,945</u>	<u>(4,632)</u>
Total	\$ <u>4,241,012</u>	<u>4,172,982</u>

- (i) In 2024, inventory depreciation losses will be recognized due to inventory write-down to net realizable value; The reversal recognition in 2023 is due to the sale of some inventories for which allowances have been made for decline in value.
- (ii) As of December 31, 2024 and 2023, the inventories of the Company were not pledged as collateral.

(e) Prepayments

The details of prepayments are as follows:

	December 31, 2024	December 31, 2023
Prepayment for purchases	\$ 320,474	168,559
Others	<u>16,478</u>	<u>14,045</u>
Total	\$ <u>336,952</u>	<u>182,604</u>

(f) Investments accounted for using equity method

The details of investments accounted for using equity method are as follows:

	December 31, 2024	December 31, 2023
Investments in subsidiaries	\$ <u>100,318</u>	<u>100,245</u>

(i) Investments in subsidiaries

Please refer to the consolidated financial statements for the year ended December 31, 2024.

(ii) Guaranty

As of December 31, 2024 and 2023, the investments accounted for using equity method of the Company were not pledged as collateral.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(g) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2024 and 2023, were as follows:

	<u>Land</u>	<u>Buildings and construction</u>	<u>Office equipment</u>	<u>Other facilities</u>	<u>Total</u>
Cost or deemed cost:					
Balance on January 1, 2024	\$ 111,724	82,815	56,916	129,993	381,448
Additions	-	-	11,579	20,503	32,082
Disposal	-	-	(1,263)	-	(1,263)
Transfer in	-	-	-	3,146	3,146
Balance on December 31, 2024	<u>\$ 111,724</u>	<u>82,815</u>	<u>67,232</u>	<u>153,642</u>	<u>415,413</u>
Balance on January 1, 2023	\$ 111,724	82,815	49,515	85,566	329,620
Additions	-	-	17,536	67,684	85,220
Disposal	-	-	(10,135)	(23,257)	(33,392)
Balance on December 31, 2023	<u>\$ 111,724</u>	<u>82,815</u>	<u>56,916</u>	<u>129,993</u>	<u>381,448</u>
Depreciation and impairment losses:					
Balance on January 1, 2024	\$ -	33,139	31,664	51,415	116,218
Depreciation	-	2,188	16,377	34,402	52,967
Disposal	-	-	(927)	-	(927)
Balance on December 31, 2024	<u>\$ -</u>	<u>35,327</u>	<u>47,114</u>	<u>85,817</u>	<u>168,258</u>
Balance on January 1, 2023	\$ -	30,767	22,657	47,274	100,698
Depreciation	-	2,372	17,700	27,398	47,470
Disposal	-	-	(8,693)	(23,257)	(31,950)
Balance on December 31, 2023	<u>\$ -</u>	<u>33,139</u>	<u>31,664</u>	<u>51,415</u>	<u>116,218</u>
Carrying amounts:					
Balance on December 31, 2024	<u>\$ 111,724</u>	<u>47,488</u>	<u>20,118</u>	<u>67,825</u>	<u>247,155</u>
Balance on January 1, 2023	<u>\$ 111,724</u>	<u>52,048</u>	<u>26,858</u>	<u>38,292</u>	<u>228,922</u>
Balance on December 31, 2023	<u>\$ 111,724</u>	<u>49,676</u>	<u>25,252</u>	<u>78,578</u>	<u>265,230</u>

As of December 31, 2024 and 2023, the property, plant and equipment of the Company had been pledged as collateral for long-term borrowings and loan commitments; please refer to note 8.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(h) Other assets(including current and non-current)

The details of other assets are as follows:

	December 31, 2024	December 31, 2023
<u>Other current assets</u>		
Other financial assets - current (Including reserve and performance account)	\$ 300,933	335,673
Others	1,279	2,606
	<u>\$ 302,212</u>	<u>338,279</u>
<u>Other non-current assets</u>		
Refundable deposits (Including performance and warranty)	\$ 360,632	416,167
Prepayments for equipment	3,633	10,954
	<u>\$ 364,265</u>	<u>427,121</u>

Other financial assets and Refundable deposits of the Company had been pledged as collateral for long-term borrowings and loan commitments, please refer to note 8.

(i) Short-term borrowings

	December 31, 2024	December 31, 2023
Letters of credit borrowings	\$ 236,596	145,814
Secured bank loans	800,394	181,182
Total	<u>\$ 1,036,990</u>	<u>326,996</u>
Unused short term credit lines	<u>\$ 768,356</u>	<u>664,030</u>
Range of interest rates	<u>2.26%~3.61%</u>	<u>2.05~2.53%</u>

For the collateral for short-term borrowings, please refer to note 8.

(j) Accounts payables

The details of accounts payables are as follows:

	December 31, 2024	December 31, 2023
Payables to suppliers	\$ 962,364	1,137,378
Payables to suppliers-related party	13,706	5,297
	<u>\$ 976,070</u>	<u>1,142,675</u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(k) Other payables

The details of other payables are as follows:

	December 31, 2024	December 31, 2023
Wages and salaries payable	\$ 219,365	187,908
Remuneration payables to employees and directors	25,238	9,993
Sales tax payables	39,651	27,463
Other accrued expenses payables	37,325	46,367
	\$ 321,579	271,731

(l) Long-term borrowings

December 31, 2024			
Currency	Rate (%)	Maturity year	Amount
Secured bank loans	TWD	2.155%~2.178%	2025~2029
			\$ 21,304
Less: current portion			(5,278)
Total			\$ 16,026
Unused long-term credit lines			\$ 55,196

December 31, 2023			
Currency	Rate (%)	Maturity year	Amount
Secured bank loans	TWD	2.03%~2.05%	2024~2029
			\$ 26,526
Less: current portion			(5,226)
Total			\$ 21,300
Unused long-term credit lines			\$ 49,974

For the collateral for Long-term borrowings, please refer to note 8.

(m) Corporate Bonds Payables

The outstanding convertible corporate bonds issued by the Company are as follows:

	December 31, 2024	December 31, 2023
Total amount of convertible corporate bonds issued	\$ -	300,000
Less: accumulated conversion amount	-	(299,600)
Less: accumulated redemption amount	-	(400)
Total	\$ -	-

The cumulative amount converted from the Company's domestic unsecured convertible bonds was \$299,600 thousand. The remaining amount of \$400 thousand was redeemed early and canceled on November 6, 2023, resulting in a zero outstanding balance.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(n) Employee benefits

(i) Defined benefit plans

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

	December 31, 2024	December 31, 2023
Present value of the defined benefit obligations	\$ 121,677	138,747
Fair value of plan assets	(37,344)	(51,466)
Net defined benefit liability(asset)	<u><u>\$ 84,333</u></u>	<u><u>87,281</u></u>

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

1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$37,444 thousand as of December 31, 2024. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

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

	2024	2023
Defined benefit obligations at January 1	\$ 138,747	140,156
Current service costs and interest	2,242	2,748
Remeasurements loss (gain)		
— Experience adjustment	6,500	(4,660)
— Actuarial gain arising from demographic assumptions	10	7
— Actuarial (loss) gain arising from financial assumptions	(3,656)	496
Benefit paid	(21,318)	-
Settlement gain or loss	(848)	-
Defined benefit obligations at December 31	<u><u>\$ 121,677</u></u>	<u><u>138,747</u></u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

3) Movements of defined benefit plan assets

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

	<u>2024</u>	<u>2023</u>
Fair value of plan assets at January 1	\$ 51,466	48,826
Interest income	469	456
Remeasurement of the net defined benefit liability (asset)		
— Return on plan assets excluding interest income	4,661	598
Contributions paid by the employer	2,066	1,586
Benefits paid	<u>(21,318)</u>	<u>-</u>
Fair value of plan assets at December 31	<u><u>\$ 37,344</u></u>	<u><u>51,466</u></u>

4) Expenses recognized in profit or loss

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

	<u>2024</u>	<u>2023</u>
Current service costs	\$ 736	1,160
Net interest of net liabilities for defined benefit obligations	1,037	1,132
Settlement gain or loss	<u>(848)</u>	<u>-</u>
	<u><u>\$ 925</u></u>	<u><u>2,292</u></u>
Selling expenses	\$ 328	1,525
Administrative expenses	517	665
Research and development expenses	<u>80</u>	<u>102</u>
Total	<u><u>\$ 925</u></u>	<u><u>2,292</u></u>

5) Actuarial assumptions

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

	<u>2024.12.31</u>	<u>2023.12.31</u>
Discount rate	1.60 %	1.20 %
Future salary increase rate	3.00 %	3.00 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one year period after the reporting date for 2024 is \$1,539 thousand.

The weighted average lifetime of the defined benefits plans is 6 years.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

6) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	Impact on the defined benefit obligations	
	Increased 0.25%	Decreased 0.25%
December 31, 2024		
Discount rate(changes in 0.25%)	\$ (1,868)	1,920
Future salary increasing rate(changes in 0.25%)	1,888	(1,847)
December 31, 2023		
Discount rate(changes in 0.25%)	\$ (2,450)	2,524
Future salary increasing rate(changes in 0.25%)	2,474	(2,414)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2024 and 2023.

(ii) Defined contribution plans

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

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2024 and 2023 amounted to \$44,000 thousand and \$39,230 thousand, respectively.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(o) Income taxes

(i) Income tax expenses

The components of income tax in the years 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Current tax expenses		
Current period	\$ 30,332	18,221
Additional tax on undistributed earnings	-	240
Adjustment for prior periods	8,324	(4,763)
Deferred tax expenses		
Origination and reversal of temporary differences	(330)	(475)
Income tax expense	<u>\$ 38,326</u>	<u>13,223</u>

Reconciliation of income tax and profit before tax for 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Profit excluding income tax	<u>\$ 168,906</u>	<u>70,843</u>
Income tax using the Company's domestic tax rate	\$ 33,781	14,169
Non-deductible expenses	(1,622)	4,052
Adjustments for change in value of financial assets	(1,827)	-
Changes in unrecognized temporary differences	(330)	(475)
Under (over) estimate for the previous period	8,324	(4,763)
Surtax on unappropriated earnings	-	240
Income tax expenses(benefit)	<u>\$ 38,326</u>	<u>13,223</u>

(ii) Deferred tax assets and liabilities

1) Recognized deferred tax assets and liabilities

Change in the amount of deferred tax assets and liabilities for 2024 and 2023 were as follows:

Deferred Tax Assets:

	<u>Inventory valuation and obsolescence loss</u>	<u>Defined benefit plans</u>	<u>Others</u>	<u>Total</u>
January 1, 2024	\$ 14,559	12,840	7,054	34,453
Recognized in profit or loss	(144)	-	943	799
Recognized in other comprehensive income	-	(362)	-	(362)
December 31, 2024	<u>\$ 14,415</u>	<u>12,478</u>	<u>7,997</u>	<u>34,890</u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

	Inventory valuation and obsolescence loss	Defined benefit plans	Others	Total
January 1, 2023	\$ 12,552	13,791	8,482	34,825
Recognized in profit or loss	2,007	-	(1,428)	579
Recognized in other comprehensive income	-	(951)	-	(951)
December 31, 2023	<u><u>\$ 14,559</u></u>	<u><u>12,840</u></u>	<u><u>7,054</u></u>	<u><u>34,453</u></u>

Deferred Tax Liabilities:

	Financial assets at fair value through other comprehensive income evaluation	Others	Total
January 1, 2024	\$ 19,541	104	19,645
Recognized in profit or loss	-	469	469
Recognized in other comprehensive income	3,567	-	3,567
December 31, 2024	<u><u>\$ 23,108</u></u>	<u><u>573</u></u>	<u><u>23,681</u></u>
January 1, 2023	\$ 17,782	-	17,782
Recognized in profit or loss	-	104	104
Recognized in other comprehensive income	1,759	-	1,759
December 31, 2023	<u><u>\$ 19,541</u></u>	<u><u>104</u></u>	<u><u>19,645</u></u>

(iii) Assessment of tax

The Company's tax returns for the year through 2022 were assessed by the Taipei National Tax Administration.

(p) Capital and other equity

(i) Common stock

As of December 31, 2024 and 2023, the Company's authorized capital were all \$2,000,000 thousand, and issued capital were all \$1,410,502 thousand, with a par value of \$10, comprising 141,050 thousand shares. All issued shares were paid up upon issuance.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

Reconciliation of shares outstanding of the Company for 2024 and 2023 was as follows:

	Common stock	
	2024	2023
January 1, 2024	140,090	132,817
Conversion of corporate bonds	-	7,273
Transfer of treasury shares to employees	961	-
December 31, 2024	141,051	140,090

(ii) Capital surplus

The components of capital surplus were as follows:

	December 31, 2024	December 31, 2023
Premium on share issuance	\$ 390,487	390,487
Treasury Stock Exchange	18,108	8,460
Employee stock option	4,027	4,027
	\$ 412,622	402,974

According to the R.O.C. Company Act, capital surplus is required to first offset a deficit before new shares or cash can be issued to shareholders in proportion to their original shares. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(iii) Retained earnings

According to the Company's Articles of Incorporation, surplus in the annual final accounts shall first be appropriated for the payment of all applicable taxes and to offset any accumulated losses. 10% of the remaining earnings shall then be appropriated as legal reserve, and a special reserve shall be set aside in accordance with regulations. The Company may retain a portion of the earnings as necessary. Any remaining earnings shall be distributed as dividends to shareholders.

The Company operates within a growth-stage industry, in consideration of future capital requirements as well as shareholders' expectations for cash returns, the Company's earnings distribution policy stipulates that, if there is surplus in the annual financial statements, no less than 10% of the total dividends declared for the year shall be distributed in the form of cash dividends. The remaining portion shall be distributed in the form of stock dividends. If stock dividends are to be distributed through the issuance of new shares, such issuance shall be subject to a resolution adopted at the shareholders' meeting.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

In accordance with Article 240, Paragraph 5 of the Company Act of the Republic of China, the Company is authorized, with the attendance of at least two-thirds of the directors and the resolution of a majority of the directors present, to distribute all or part of the dividends and bonuses in the form of cash. Such resolution shall be reported to the shareholders' meeting.

1) Legal reserve

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

2) Special reserve

According to the FSC regulation, when the Company distributes distributable earnings, an equivalent amount of special reserve should be set aside from the current period's earnings and prior period's undistributed earnings for the net decrease in other shareholders' equity that occurred in the current year. For the cumulative decrease in other shareholders' equity in the prior period, the special reserve should be set aside from prior period's undistributed earnings and should not be distributed. For any subsequent reversal of deductions from other shareholders' equity, the reversed portion of the earnings may be distributed.

3) Earning distribution

Earning distribution for 2023 and 2022 was decided by the resolution adopted, at the general meeting of shareholders held on April 11, 2024 and May 12, 2023, respectively. The relevant dividend distributions to shareholders were as follows, For further information, please refer to the Market Observation Post System (MOPS).

	2023		2022	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to shareholders:				
cash	\$ 0.3	\$ <u><u>42,027</u></u>	0.3	\$ <u><u>41,818</u></u>

(iv) Treasury Shares

For the year ended December 31, 2020, the Company repurchased 4,338 thousand shares of its own stock in accordance with Article 28-2 of the Securities and Exchange Act, for the purpose of transferring the shares to employees. As of December 31, 2024, all repurchased shares have been transferred to employees. According to the Securities and Exchange Act, the treasury shares held by the Company shall not be pledged. Before the transfer, the shareholders' rights, such as dividend distribution, voting, shall not be entitled.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(q) Share-Based Payment

The issuance of 1,000 thousand restricted stock awards was approved by the resolution of the Company's annual general shareholders' meeting on May 24, 2024. The shares are to be granted exclusively to full-time employees of the Company who meet specific eligibility criteria. The issuance has been declared effective by the Financial Supervisory Commission, Securities and Futures Bureau. Subsequently, the Board of Directors resolved on September 4, 2024, to proceed with the issuance. The shares will be issued gratuitously.

Employees who are granted restricted employee shares are entitled to receive the shares gratuitously. The shares are subject to a vesting schedule that requires continued employment with the Company from the grant date. The granted shares will vest over a four-year period, on each of May 1 and November 1 starting from November 1, 2025, with 25% of the shares vesting in the beginning and 12.5% of the shares vesting on each subsequent vesting date.

Prior to meeting the vesting conditions, employees may not sell, pledge, transfer, assign, gift, or otherwise dispose of the restricted shares, except in the case of inheritance. All unvested shares must be held in trust with an institution designated by the Company and are not entitled to shareholder rights. All rights related to attendance, proposals, speaking, voting, and other shareholder entitlements at shareholders' meetings shall be exercised by the trustee on behalf of the employees.

If an employee fails to meet the vesting conditions, the Company shall repurchase all unvested shares gratuitously and cancel them accordingly. As of December 31, 2024, the outstanding restricted shares were fractional shares only. In accordance with the Company's accounting policy, the grant date of the restricted shares was January 7, 2025.

In addition to the restricted employee shares, as of December 31, 2024, the Company had the following share-based payment arrangements outstanding.

	<u>Equity-settled</u> <u>Treasury stock</u> <u>transferred to</u> <u>employees</u>
Grant Date	September 5, 2024
Number of shares granted	961 thousand shares
Recipients	Eligible employees
Vesting conditions	Immediately vested

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(i) Measurement Parameters for Grant-Date Fair Value

The Company estimated the grant-date fair value of share-based payments using the Black-Scholes option pricing model. The inputs to the model were as follows:

	<u>2024</u>
	<u>Treasury stock transferred to employees</u>
Fair value at grant date	11.83
Share price at grant date	23.85
Exercise price	12.03
Expected volatility (%)	48.83 %
Expected life (days)	25
Expected dividend yield	-
Risk-free interest rate (%)	1.25 %

The Company transferred 961 thousand treasury shares to employees at a transfer price of \$12.03 per share, and recognized share-based compensation expense in the amount of \$11,369 thousand.

Expected volatility is based on the weighted average of historical volatility, and it is adjusted when there is additional market information about the volatility. The Company determined the expected dividends and risk-free rate during the life of the option. These rates are determined based on government bonds, and they are in accordance with the regulations. Service and non-market performance conditions attached to the transactions are not taken into account in determining the fair value.

(r) Earnings per share

The Company calculates basic earnings per share and diluted earnings per share as follows:

(i) Basic earnings per share

	<u>2024</u>	<u>2023</u>
Profit attributable to ordinary shareholders of the Company	\$ <u>130,580</u>	<u>57,620</u>
Weighted average number of ordinary shares outstanding	<u>140,399</u>	<u>137,785</u>
Basic earnings per share (dollar)	\$ <u>0.93</u>	<u>0.42</u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(ii) Diluted earnings per share

	<u>2024</u>	<u>2023</u>
Profit attributable to ordinary shareholders of the Company(basic)	\$ 130,580	57,620
Effect of potentially dilutive ordinary shares		
After-tax effect of interest expense on convertible bonds and other gains or losses	-	658
Profit attributable to ordinary shareholders of the Company(diluted)	<u><u>\$ 130,580</u></u>	<u><u>58,278</u></u>
Weighted-average number of common shares outstanding (basic)	140,399	137,785
Effect of potentially dilutive ordinary shares		
Effect of the conversion of convertible bonds	-	2,304
Effect of employee shares bonus	1,107	742
Weighted average number of ordinary shares outstanding (after adjusting the effect of potentially dilutive ordinary shares)	<u><u>141,506</u></u>	<u><u>140,831</u></u>
Diluted earnings per share (dollar)	<u><u>\$ 0.92</u></u>	<u><u>0.41</u></u>

(s) Revenue from contracts with customers

(i) Disaggregation of revenue

Breakdown of the Company's revenues is as follows:

	<u>2024</u>	<u>2023</u>
Sale of goods	\$ 3,710,002	3,901,151
Revenue from maintenance services	1,078,216	849,541
Revenue from construction services	458,139	373,814
Revenue from rendering of services	142,219	70,221
Other operating revenue	30,285	17,266
	<u><u>\$ 5,418,861</u></u>	<u><u>5,211,993</u></u>

(ii) Disaggregation of revenue

	<u>2024</u>	<u>2023</u>
Timing of revenue recognition:		
At a point in time	\$ 3,710,002	3,901,151
Over time	1,708,859	1,310,842
	<u><u>\$ 5,418,861</u></u>	<u><u>5,211,993</u></u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(iii) Contract balances

	December 31, 2024	December 31, 2023	January 1, 2023
Notes and Accounts Receivable	\$ 1,592,842	1,254,183	2,096,047
Less: Allowance for bad debts	<u>(21,828)</u>	<u>(12,245)</u>	<u>(21,115)</u>
Total	<u>\$ 1,571,014</u>	<u>1,241,938</u>	<u>2,074,932</u>
Contract Assets	<u>\$ 48,376</u>	<u>47,481</u>	<u>30,414</u>
Contract Liabilities	<u>\$ 938,038</u>	<u>737,465</u>	<u>897,555</u>

Please refer to Note 6(c) for disclosures on notes and accounts receivable and their impairment.

For the years ended December 31, 2024 and 2023 the amounts recognized as revenue from the contract liabilities at the beginning of the respective years were \$643,271 thousand and \$793,710 thousand, respectively.

Contract assets primarily represent the Company's rights to consideration for goods or services transferred to customers, for which the rights are conditional on something other than the passage of time.

Contract liabilities mainly arise from advance payments received from customers for which the Company is obligated to transfer goods or services in the future. These amounts are recognized as revenue when the performance obligations are subsequently satisfied.

(t) Employees' compensation and directors' remuneration

The Company's Articles of Incorporation stipulate that if there is a profit for the year, the Company should set aside 10% to 20% of its annual profit as employees' compensation and not more than 1% as directors' remuneration, provided that if the Company has an accumulated deficit, the Company should retain the amount in advance to cover the deficit. The recipients of shares or cash may include the employees of the Company's parent or subsidiaries who meet certain conditions, and shall be determined by the Board of Directors in accordance with Article 202 of the R.O.C. Company Act.

For the years ended December 31, 2024 and 2023, the amount of employees' compensation provided by the Company was \$23,297 thousand and \$9,224 thousand respectively, and the amount of directors' remuneration was \$1,941 thousand and \$769 thousand respectively. The amounts were estimated on the distribution percentages of employees' compensation and directors' remuneration as stipulated in the Company's Articles of Incorporation, and were reported as operating expenses. If there is a difference between the actual distribution amount and the estimated amount in the next year, it will be treated based on the change in accounting estimates, and be recognized as the profit/loss of the next year. If the Board of Directors decides to use stocks to pay employees' compensation, the number of shares will be calculated based on the closing price of ordinary shares on the day before the Board of Directors' resolution.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

For the years ended December 31, 2024 and 2023, the actual amounts of employees' compensation were \$9,224 thousand and \$22,261 thousand respectively, and the actual amounts of directors' remuneration were \$769 thousand and \$1,855 thousand respectively. There was no difference between the amounts approved in the Board of Directors' meeting and the amounts estimated in the 2024 and 2023 parent company only financial statements. The information is available on the Market Observation Post System website.

(u) Non operating income and expenses

(i) Interest income

The Company's interest income for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Interest income from bank deposits	\$ 11,312	8,969
Interest income from financial assets measured at amortized cost	-	-
Others	<u>304</u>	<u>471</u>
Total interest income	<u><u>\$ 11,616</u></u>	<u><u>9,440</u></u>

(ii) Other income

The Company's other income for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Government grant income	\$ 48,960	66,887
Dividend income	1,143	1,283
Others	<u>12,064</u>	<u>6,226</u>
Total other income	<u><u>\$ 62,167</u></u>	<u><u>74,396</u></u>

(iii) Other gains and losses

The Company's other gains and losses for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Gains on disposal of property, plant and equipment	\$ 243	144
Gains on disposal of intangible assets	4	-
Foreign exchange gains	1,516	5,600
Gains on financial assets measured at fair value through profit or loss	9,138	3,634
Expenses related to government grants income	(57,211)	(21,978)
Various expenses	<u>(6,263)</u>	<u>(1,967)</u>
Total other gains and losses	<u><u>\$ (52,573)</u></u>	<u><u>(14,567)</u></u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(iv) Finance costs

The Company's Finance costs for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Interest expense	\$ 17,391	10,542
Interest expense of lease liabilities	878	930
Others	<u>24</u>	<u>823</u>
Total finance costs	<u><u>\$ 18,293</u></u>	<u><u>12,295</u></u>

(v) Financial instruments

(i) Credit risk

1) Credit risk exposure

As of December 31, 2024 and 2023, the Company's maximum exposure to credit risk, and the maximum exposure were mainly from cash and cash equivalents, deposits placed with banks and other financial institutions, fixed-income investments and other financial instruments, as well as trade and other receivables, and refundable deposits arising from operating activities.

2) Concentration of credit risk

The credit risks associated with bank deposits, fixed-income investments, and other financial instruments are assessed and monitored by the Corporation's operations and management departments. The Corporation and its subsidiaries engage with counterparties and contractors that are primarily reputable banks, financial institutions, and government agencies with high credit ratings. Accordingly, the exposure to significant credit risk is considered minimal.

3) Receivables and debt securities

The majority of the Corporation's accounts receivable are due from corporate entities or public institutions with strong credit ratings. In recent years, there have been no material instances of bad debt. The adequacy of the allowance for doubtful accounts is assessed on a regular basis. As a result, the Corporation is not exposed to any significant credit risk in relation to accounts receivable.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flow</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Over 5 years</u>
December 31, 2024						
Non derivative financial liabilities						
Short term borrowings	\$ 1,036,990	1,037,357	1,037,357	-	-	-
Short-term notes payable	50,000	50,000	50,000	-	-	-
Long-term borrowings (including current portion due within one year)	21,304	22,259	5,687	5,632	10,940	-
Accounts payable	976,070	976,070	976,070	-	-	-
Other payables	321,579	321,579	321,579	-	-	-
Lease liabilities	43,186	43,958	26,720	12,488	4,750	-
Deposits received	13,561	13,561	-	13,561	-	-
	<u>\$ 2,462,690</u>	<u>2,464,784</u>	<u>2,417,413</u>	<u>31,681</u>	<u>15,690</u>	<u>-</u>
December 31, 2023						
Non derivative financial liabilities						
Short term borrowings	\$ 326,996	326,996	326,996	-	-	-
Long-term borrowings (including current portion due within one year)	26,526	26,526	5,226	5,282	14,735	1,283
Accounts payable	1,142,675	1,142,675	1,097,681	2,643	42,351	-
Other payables	271,731	271,731	271,731	-	-	-
Lease liabilities	36,772	47,923	25,148	15,937	6,838	-
Deposits received	11,281	11,281	-	11,281	-	-
	<u>\$ 1,815,981</u>	<u>1,827,132</u>	<u>1,726,782</u>	<u>35,143</u>	<u>63,924</u>	<u>1,283</u>

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

Bank borrowings and financing from non-financial institutions constitute key sources of liquidity for the Company. These borrowings are secured by real estate and other financial assets, including designated repayment accounts, as detailed in Note 8.

Based on historical practice, the Company typically renews its credit facilities prior to maturity, using the same collateral. Management actively monitors the utilization of credit lines, ensures compliance with loan covenants, and prepares forward-looking cash flow forecasts.

In light of these measures, management believes that the Company is not exposed to material liquidity risk arising from an inability to obtain funding to meet its contractual obligations

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(iii) Currency risk

1) Exposure to Currency Risk

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

	December 31, 2024				December 31, 2023		
	Foreign currency	Exchange rate		TWD	Foreign currency	Exchange rate	TWD
<u>Financial assets</u>							
<u>Monetary items</u>							
USD	\$	5,626	32.79	184,448	2,444	30.69	75,006
CNY		1,515	4.48	6,786	1,514	4.33	6,556
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD		2,132	32.79	69,898	2,226	30.69	68,316
JPY		26,100	0.21	5,478	-	-	-
EUR		1,406	34.13	47,987	-	-	-

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable and other receivables, financial assets at fair value through other comprehensive income, borrowings, accounts and other payables that are denominated in foreign currency.

As of December 31, 2024 and 2023, a strengthening (weakening) of 1% of the exchange rate of the functional currency of the Company against the main foreign currencies would increase (decrease) net profit after tax by \$543 thousand and \$106 thousand, respectively. The analysis of the two periods was conducted using the same basis, assuming all other variables held constant.

3) Foreign exchange gains or losses on monetary items

Since the Company has many kinds of functional currencies, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the years ended December 31, 2024 and 2023, net foreign exchange gain (loss) amounted to \$1,516 thousand, and \$5,600 thousand, respectively.

(iv) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Company's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

The rate of change is expressed as the interest rate increases or decreases by 1% when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased/decreased by 1%, the Company's net income would have decreased/increased by \$10,870 thousand and \$3,270 thousand for the years ended December 31, 2024 and 2023, respectively, with all other variable factors remaining constant. This is mainly due to the Company's borrowings and investments in notes with variable interest rates.

(v) Other market price risk

For the years ended December 31, 2024 and 2023, the sensitivity analyses for the changes in the securities price at the reporting date were performed using the same basis for profit or loss as illustrated below:

	2024		2023	
	Net amount after tax of other comprehensive income	Net income	Net amount after tax of other comprehensive income	Net income
Prices of securities at the reporting date				
Increasing 1%	\$ <u>1,565</u>	<u>173</u>	<u>1,394</u>	<u>82</u>
Decreasing 1%	\$ <u>(1,565)</u>	<u>(173)</u>	<u>(1,394)</u>	<u>(82)</u>

(vi) Fair value of financial instruments

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss and Financial assets at fair value through other comprehensive income are measured on a recurring basis. The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except for financial instruments not measured at fair value, whose carrying amount is reasonably close to the fair value, and lease liabilities, for which disclosure of fair value information is not required:

	December 31, 2024				
	Fair Value				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss, current					
Equity instruments (stocks)	\$ <u>17,313</u>	<u>17,313</u>	<u>-</u>	<u>-</u>	<u>17,313</u>
Financial assets at fair value through profit or loss, non current					
Equity instruments (stocks)	<u>156,473</u>	<u>-</u>	<u>-</u>	<u>156,473</u>	<u>156,473</u>
Total	\$ <u>173,786</u>	<u>17,313</u>	<u>-</u>	<u>156,473</u>	<u>173,786</u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

	December 31, 2023				
	Carrying Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss, current					
Equity instruments (stocks)	\$ 8,175	8,175	-	-	8,175
Financial assets at fair value through profit or loss, non current					
Equity instruments (stocks)	139,392	-	-	139,392	139,392
Total	\$ 147,567	8,175	-	139,392	147,567

2) Valuation techniques for financial instruments not measured at fair value

The Company's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

a) Financial assets and financial liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Valuation techniques for financial instruments measured at fair value

a) Non derivative financial instruments

Financial instrument traded in active market is based on quoted market price. Quoted market prices from major stock exchanges and prices published by the Over-the-Counter (OTC) trading center for government bonds identified as actively traded are considered the basis for determining the fair value of listed equity instruments and debt instruments with quoted prices in active markets.

A financial instrument is regarded as having a quoted price in an active market if quoted prices are readily and regularly available from exchanges, brokers, dealers, industry groups, pricing services, or regulatory agencies, and those prices represent actual and regularly occurring market transactions on an arm-length basis.

If these conditions are not met, the market is considered inactive. Indicators of an inactive market generally include wide bid-ask spreads, significant increases in bid-ask spreads, or low trading volumes. For financial instruments held by the Company that are traded in active markets, their fair values are presented by category and nature as follows:

- Listed equity securities are financial assets and liabilities with standard terms and conditions that are traded in active markets. Their fair values are determined based on quoted market prices.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

For financial instruments not traded in active markets, fair values are determined using valuation techniques or based on quotes from counterparties. Valuation techniques may include reference to the current fair value of other financial instruments with similar terms and characteristics, discounted cash flow analysis, or other valuation models that incorporate observable market data available as of the reporting date.

For financial instruments held by the Company that are not traded in active markets, their fair values are also presented by category and nature as follows:

·Equity instruments without quoted prices in active markets: Fair value is estimated using a discounted cash flow model, with key assumptions based on the expected future cash flows of the investee, discounted at a rate that reflects the time value of money and the risks specific to the investment.

4) Transfers between Level 1 and Level 2

No transfers were made between the fair value levels in the hierarchy for the years ended December 31, 2024 and 2023.

5) Level 3 Reconciliation

	Fair value through other comprehensive income
	Equity instruments without quoted prices in an active market
January 1, 2024	\$ 139,392
Recognized in other comprehensive income (unrealized gains or losses on equity investments measured at fair value through other comprehensive income)	17,081
December 31, 2024	<u><u>\$ 156,473</u></u>
January 1, 2023	\$ 132,110
Sold during the period	(7,121)
Recognized in other comprehensive income (unrealized gains or losses on equity investments measured at fair value through other comprehensive income)	14,403
December 31, 2023	<u><u>\$ 139,392</u></u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

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

The Company's financial instruments that use Level 3 inputs to measure fair value include financial assets measured at fair value through profit or loss.

Most of the Company's financial instruments that use Level 3 inputs have only one significant unobservable input. Only equity investment without an active market have multiple significant unobservable inputs. The significant unobservable inputs of the equity investments without an active market are independent, therefore, there is no correlation between them.

Quantified information of significant unobservable inputs was as follows:

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Interrelationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through profit or loss—equity investments without an active market	Market approach	<ul style="list-style-type: none"> Market-to-book ratio Market liquidity discount rate (20% as of December 31, 2024 and 2023) 	<ul style="list-style-type: none"> A higher market-to-book ratio generally indicates a higher fair value. A greater discount for lack of marketability typically results in a lower fair value.

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

The Company's measurement on the fair value of financial instruments is deemed reasonable despite the fact that different valuation models or parameters may lead to different results. For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

		Upward or downward	Current profit (loss) arising from changes in fair value		Other comprehensive income arising from changes in fair value	
	<u>Inputs</u>	<u>Movements</u>	<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
December 31, 2024						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Market liquidity discount	1%	-	-	1,978	(1,978)
December 31, 2023						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Market liquidity discount	1%	-	-	1,569	(1,578)

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

The favorable and unfavorable effects represent the changes in fair value, and the fair value is based on a variety of unobservable inputs, calculated using a valuation technique. If the fair value of a financial instrument is affected by more than one input, the above table only reflects the effect of changes in a single input, and it does not take into account the correlation and variability between the inputs.

(w) Financial risk management

(i) Overview

The Company have exposures to the following risks from its financial instruments:

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

The following likewise discusses the Company's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying parent company only financial statements.

(ii) Structure of risk management

The Company's risk management activities are carried out by the Finance Department in accordance with the transaction authority limits approved by the Board of Directors. The Finance Department is responsible for identifying, assessing, and mitigating financial risks through close communication with operating units.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's primary exposure to credit risk arises from cash and deposits with banks and financial institutions, fixed income investments and other financial instruments, as well as account receivables resulting from operating activities.

The counterparties of the Company's account receivables are primarily companies or government agencies with high credit ratings. In recent years, the Company has not experienced any significant bad debts. The adequacy of the allowance for doubtful accounts is assessed regularly, and no material credit risk has been identified.

Credit risk related to bank deposits, fixed income investments, and other financial instruments is monitored and assessed by the Company's finance department. Since the counterparties and obligors are reputable banks and financial institutions, corporations, and government agencies with investment-grade or higher credit ratings, there are no significant concerns regarding their ability to fulfill contractual obligations. Accordingly, the Company is not exposed to any material credit risk.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(iv) Liquidity risk

Cash flow forecasts are prepared by the Company's Finance Department to assess and manage the Company's liquidity position. The Finance Department regularly monitors these forecasts to ensure that sufficient funds are available to meet operational requirements. Furthermore, the Company maintains adequate undrawn borrowing facilities at all times to ensure compliance with applicable borrowing limits and financial covenants.

(v) Market risk

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

1) Currency risk

Some of the Company's cash inflows and outflows are denominated in foreign currencies, which provide a natural hedging effect. The Company manages its foreign exchange risk for hedging purposes and not for profit-generating purposes. The Company's foreign exchange risk management strategy involves regular review of the net exposure of foreign currency-denominated assets and liabilities, primarily in U.S. dollars and Japanese yen, and the active management of the associated risks.

The selection of hedging instruments is based on considerations such as cost efficiency and hedge duration. At present, the primary instrument used to hedge foreign exchange risk is the borrowing of foreign currency-denominated liabilities. When such liabilities are exposed to foreign exchange risk, the Company may convert the borrowings into New Taiwan dollar-denominated liabilities at an appropriate exchange rate. As a result, the Company does not anticipate any material exposure to foreign exchange risk.

2) Interest rate risk

The Company is exposed to interest rate risk primarily arising from bank borrowings. Borrowings issued at variable interest rates expose the Company to cash flow interest rate risk, which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed interest rates expose the Company to fair value interest rate risk. It is the Company's policy to adopt fixed interest rates for its borrowings.

(x) Capital management

Capital management is conducted to ensure that the Company maintains an optimal balance between debt and equity to maximize shareholder returns while sustaining its status as a going concern. The Company regularly evaluates and monitors the associated costs, risks, and returns to maintain sound profitability and financial ratios. Where necessary, the Company adjusts its overall capital structure through various financing activities to support future working capital requirements, debt servicing obligations, and dividend distributions.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(7) Related-party transactions

(a) Names and relationship with related parties

The followings are entities that have had transactions with related party during the periods covered in the parent company only financial statements.

<u>Name of related party</u>	<u>Relationship with the Company</u>
Tarantula Networks Ltd.	Subsidiaries
S-Link Systems Inc.	Subsidiaries
Family Plus Technology Inc.	Subsidiaries
Open Information Security Inc.	Subsidiaries
Hua Ai Human Resources Services Co.,Ltd.	Subsidiaries(Note)
Hwacom Systems(Shanghai) Co.,Ltd.	Subsidiaries
Hwacom Systems(H.K.) Ltd.	Subsidiaries
Advantech Co.,Ltd.	Corporate Director of the Company
Lutai Investment Co., Ltd.	Other related party

Note: In July 2024, the Company invested in the establishment of Hua Ai Human Resources Services Co., Ltd.

(b) Significant transactions with related parties

(i) Sales

The amounts of significant purchases by the Company from related parties were as follows:

	<u>2024</u>	<u>2023</u>
Subsidiaries	\$ <u><u>2,738</u></u>	<u><u>1,100</u></u>

The Company sells goods to related parties under standard commercial terms, based on market prices. The payment terms range from one to two months.

(ii) Purchases

	<u>2024</u>	<u>2023</u>
Subsidiaries	\$ <u>52,205</u>	<u>24,674</u>
Corporate Director of the Company	<u>3,997</u>	<u>2,483</u>
	\$ <u><u>56,202</u></u>	<u><u>27,157</u></u>

The Company purchases goods from related parties under standard purchasing terms, based on prevailing market prices. The payment terms range from one to two months.

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(iii) Receivables from related parties

<u>Account</u>	<u>Relationship</u>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Account receivables	Subsidiaries	\$ <u>2,055</u>	<u>1,287</u>

(iv) Payables to related parties

The details of the Company's payables to related parties were as follows:

<u>Account</u>	<u>Relationship</u>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Accounts Payable	Subsidiaries	\$ 14,377	5,509
Accounts Payable	Corporate Director of the Company	<u>548</u>	<u>90</u>
		\$ <u>14,925</u>	<u>5,599</u>
Other payables	Subsidiaries	\$ <u>451</u>	<u>-</u>

(c) Key management personnel compensation

	<u>2024</u>	<u>2023</u>
Short-term employee benefits	\$ <u>116,200</u>	<u>84,303</u>

(8) Assets pledged as security:

The carrying values of pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Other current assets-reserve and performance accounts	Bank loans, performance guarantee	\$ 300,933	335,673
Other non-current assets-refundable deposits (Time deposits)	Performance guarantee	140,379	127,784
Property, Plant and Equipment	Bank loans	<u>164,398</u>	<u>161,399</u>
		\$ <u>605,710</u>	<u>624,856</u>

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(9) Commitments and contingencies:

(a) Significant unrecognized contractual commitments

	December 31, 2024	December 31, 2023
Unutilized forward letters of credit issued for imported goods	\$ <u>-</u>	<u>4,254</u>
Promissory notes issued as performance guarantees for construction projects	\$ <u>239,579</u>	<u>367,669</u>
Guarantee letters issued for bid bonds and performance/warranty obligations related to construction projects	\$ <u>525,239</u>	<u>609,669</u>

The Company purchased equipment from NTT TAIWAN LTD. (hereinafter “NTT”) for the “building of Asia Pacific Telecom’s server room project” outsourced by NOKIA SOLUTIONS AND NETWORKS TAIWAN CO., LTD. (hereinafter “Nokia”), and dispute occurred. NTT alleged that the Company, Nokia, and Asia Pacific have the cause of not making payments, and complaint and requested joint damage or quasi-joint compensation from the aforementioned 3 companies, including the Company.

The case been judged against the Company in the trial of first insurance by Taiwan Shilin District Court on January 14, 2020. The Company has recognized the relevant losses of \$12,846 thousand (USD 428,482) for the payable amount based on the conservatism principle, which are recognized under non-current liabilities-provisions.

The Company appealed and the High Court judged on September 15, 2021 that the Company shall pay NTT USD 18,779 thousand and the accrued interest calculated from October 24, 2017 to the repayment date by annual interest rate of 5%. The residual USD 409,703 thousand and the interests shall be paid by Asia Pacific Telecom based on the amendment to the judgment. The Company has subsequently settled the amount of USD 18,779 pursuant to the judgment.

After consulting legal expert for legal advices, for the USD 409,703 appealed by Asia Pacific Telecom and NTT, the Company did not issue purchase order to NTT, and the upstream of the Company, Nokia, did not issue purchase order to the Company. Therefore, the amount shall not be paid by the Company. However, as NTT and Asia Pacific Telecom has appealed for the third instance, and the case has been remanded to the High Court by the Supreme Court. On February 11, 2025, the High Court rendered a judgment dismissing the appeal and upholding the original decision. Subsequently, on March 4, 2025, NTT filed another appeal, and the case is currently under review at the appellate stage. As of December 31, 2024 and 2023, the balance of the provision for liabilities related to this case amounted to \$12,283 thousand.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:None

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(12) Other:

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

By item	By function	For the years ended December 31					
		2024			2023		
		Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Employee benefits							
Salary		406,299	625,220	1,031,519	177,204	699,808	877,012
Labor and health insurance		41,530	36,967	78,497	17,812	54,474	72,286
Pension		21,186	23,739	44,925	9,679	31,844	41,523
Remuneration of directors		-	4,424	4,424	-	3,084	3,084
Others		12,829	21,090	33,919	7,305	20,853	28,158
Depreciation		1,692	81,396	83,088	5,540	72,649	78,189
Amortization		-	33,655	33,655	-	24,563	24,563

For the years ended December 31, 2024 and 2023, the information on the number of employees and employee benefit expense of the Company is as follows :

	2024	2023
Number of employees	<u>869</u>	<u>792</u>
Number of directors (non-employee)	<u>6</u>	<u>5</u>
Average employee benefit expense	<u>\$ 1,378</u>	<u>1,295</u>
Average employee salary expense	<u>\$ 1,195</u>	<u>1,114</u>
Adjustment to average employee salary expense	<u>7.27 %</u>	

The Company's remuneration policy (including directors, supervisors, managers and employees) information is as follows:

- (i) Directors and Supervisors: The monthly compensation is fixed. If the Company earns profit in the year, directors' and supervisors' remuneration shall be provided based on the regulation of the Company's Articles of Incorporation.
- (ii) Managers and Employees:
 - 1) Employees' compensation comprises salary and bonus. Salary is determined by rank and position, and adjusted in the second half of the year based on personal working performance and the entire operation of the Company. Bonus comprise year-end bonus and performance bonus, which is distributed based on operation of the Company in the year and personal performance.
 - 2) According to the Company's Articles of Incorporation, if the Company earns profit in the year, employees' remuneration shall be provided.

(Continued)

HWACOM SYSTEMS INC.

Notes to Non-consolidated Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

- (i) Loans to other parties:None
- (ii) Guarantees and endorsements for other parties:None
- (iii) Securities held as of December 31, 2024 (excluding investment in subsidiaries, associates and joint ventures):

(In Thousands of New Taiwan Dollars)

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Zero One Technology Co., Ltd.	-	Financial assets at fair value through profit or loss, current	125,000	17,313	0.07 %	17,313	
The Company	Genie Networks Limited	-	Financial assets at fair value through other comprehensive income, non-current	905,679	13,395	3.53 %	13,395	
The Company	VeriSilicon Holdings Co., Ltd.	-	"	692,548	130,095	0.14 %	130,095	
The Company	Acom Networks Technology Co., Ltd.	-	"	380,000	8,816	19.00 %	8,816	
The Company	Taiwan Botong Software Technology Co., Ltd.	-	"	500,000	-	11.63 %	-	
The Company	Omni Media International Incorporation	-	"	500,000	2,680	0.76 %	2,680	
The Company	Leon Energy Co., Ltd.	-	"	100,000	1,487	0.43 %	1,487	
Tarantula Networks Ltd.	ZQAM Communications Corporation-ordinary shares	-	"	56,250	585	0.53 %	585	
Tarantula Networks Ltd.	ZQAM Communications Corporation-preferred shares	-	"	24,750	257	0.24 %	257	

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

(Continued)

HWACOM SYSTEMS INC.

Notes to Non-consolidated Financial Statements

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2024 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Investor company	Investee company	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2024			Net income (losses) of investee company	Investment income (losses) recognized	Note
				December 31, 2024	December 31, 2023	Shares	Percentage of ownership	Carrying value			
The Company	Tarantula Networks Ltd.	New Taipei City	Information Software and Telecommunication Engineering Industry, etc.	19,980	19,980	-	100.00 %	10,064	(12)	(12)	Subsidiaries
The Company	Family Plus Technology Inc.	New Taipei City	Information Software and Services Industry, etc.	16,000	16,000	1,600	100.00 %	18,959	2,629	2,943	Subsidiaries
The Company	S-link Systems Inc.	New Taipei City	Information Software and Telecommunication Engineering, etc.	45,000	45,000	4,500	100.00 %	9,633	2,601	(3,935)	Subsidiaries
The Company	Open Information Security Inc.	New Taipei City	Data Processing and Information Supply Services Industry	51,000	51,000	5,100	100.00 %	51,904	(113)	(280)	Subsidiaries
The Company	Hwacom systems (H.K.) Ltd.	Hong Kong	Information Software and Services Industry, etc.	414	414	100	100.00 %	202	(80)	(80)	Subsidiaries
The Company	Hua Ai Human Resources Services Co.,Ltd.	New Taipei City	Human Resource Dispatching Industry, etc.	2,000	-	200	100.00 %	1,937	(63)	(63)	Subsidiaries

Note: Unrealized gains and losses on transactions between affiliates have been eliminated.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(In Thousands of New Taiwan Dollars)

Investee company	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2024	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2024	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) recognized	Carrying value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Hwacom Systems (shanghai) Co.,Ltd.	Data Processing and Information Supply Services Industry	15,713	(1)	15,713	-	-	15,713	(268)	100.00%	(268)	7,619	-

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2024	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
15,713	An investment of USD 500,000 was made in Hwacom Systems (Shanghai) Co., Ltd.	1,523,446

Note 1: The method for engaging in investment in Mainland China include the following:

- (1) Direct investment in Mainland China.
- (2) Indirectly investment in Mainland China through companies registered in a third region. (Please specify the name of the company in third region).
- (3) Other methods

Note 2: Initial investment amounts denominated in foreign currencies are translated into New Taiwan Dollars.

Note 3: The recognition of the investment through profit or loss of Hwacom Systems (Shanghai) Co., Ltd. was based on the financial statements which were reviewed and attested by parent company's CPA in R.O.C. within the same period.

Note 4: According to the rules of the Investment Board, Ministry of Economic Affairs, the maximum amount on investments should be the higher of the Company's net asset or 60% of the consolidated net assets.

Note 5: The above amounts were translated into New Taiwan Dollars at the exchange rate 32.79 as of December 31, 2024.

(iii) Significant transactions:

The significant intercompany transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(Continued)

HWACOM SYSTEMS INC.
Notes to Non-consolidated Financial Statements

(d) Major shareholders:None

Shareholder's Name	Shareholding	Shares	Percentage
Advantech Corporate Investment		24,575,000	17.42 %

(14) Segment information:

Please refer to the consolidated financial statements for the year ended December 31, 2024.

HWACOM SYSTEMS INC.

Statement of cash and cash equivalents

December 31, 2024

(Expressed in thousands of New Taiwan Dollar)

Item	Description	Amount	Note
Cash on hand and revolving funds	USD 667 at an exchange rate of NT\$32.785; JPY 64,275 at an exchange rate of NT\$0.2099; CNY 12,791 at an exchange rate of NT\$4.4790; EUR 586.7 at an exchange rate of NT\$34.13; HKD 78.00 at an exchange rate of NT\$4.2235.	\$ 648	
Cash in banks			
Demand deposits		866,205	
Check deposits		11	
Foreign currency deposits	USD 1,766,527.12 at an exchange rate of NT\$32.785; CNY 1,502,046.09 at an exchange rate of NT\$4.479; HKD 20,267.75 at an exchange rate of NT\$4.2235; EUR 3.21 at an exchange rate of NT\$34.130.	64,729	
		<u>\$ 931,593</u>	

HWACOM SYSTEMS INC.
Statement of accounts receivable
December 31, 2024
(Expressed in thousands of New Taiwan Dollar)

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
<u>Current</u>			
Company A		\$ 203,359	
Company B		180,764	
Company C		125,366	
Company D		110,292	
Company E		104,476	
Company F		91,719	
Others (Note)		<u>776,709</u>	
Total		1,592,685	
Less: Loss allowance		<u>(21,828)</u>	
Net amount		<u><u>\$ 1,570,857</u></u>	

Note: The balance of each Client does not exceed 5% of the account balance.

HWACOM SYSTEMS INC.

Statement of inventories

December 31, 2024

(Expressed in thousands of New Taiwan Dollar)

Item	Description	Amount		Note
		Cost	Net realized value	
Goods		\$ 1,964,374	1,892,300	
Less: Allowance for inventory valuation losses		(72,074)		
Net amount		<u>\$ 1,892,300</u>		

- 1.The comparison between inventory cost and net realizable value is carried out by item-by-item comparison method.
- 2.Allowance for inventory valuation losses is sufficient for inventories.

Statement of prepayments

Item	Amount	Note
Company G	\$ 54,780	
Company H	30,077	
Company I	20,930	
Company J	19,774	
Others (Note)	<u>211,391</u>	
	<u>\$ 336,952</u>	

HWACOM SYSTEMS INC.**Statement of other current assets****December 31, 2024****(Expressed in thousands of New Taiwan Dollars)**

For further details, please refer to Note 6(h).

Statement of other non-current assets

For further details, please refer to Note 6(h).

HWACOM SYSTEMS INC.

Statement of short-term loans

December 31, 2024

(Expressed in thousands of New Taiwan Dollar)

Types	Description	Ending balance	Contract period	Interest Rate Range	Loan Commitments	Mortgage or guarantee	Note
Secured bank loans	The Shanghai Commercial & Savings Bank, Ltd.	\$ 11,631	2024.12.24~2025.6.20	Note	130,000	Note	
Secured bank loans	Taipei Fubon Commercial Bank Co., Ltd.	65,323	2024.8.27~2025.1.27	"	200,000	"	
"	"	48,576	2024.9.30~2025.2.20	"	Shared collateral	"	
"	"	84,677	2024.9.30~2025.3.2	"	"	"	
Secured bank loans	Taishin International Bank	18,715	2024.7.31~2025.1.27	"	80,000	"	
"	Hua Nan Commercial Bank, Ltd	53,152	2024.12.2~2025.5.30	"	Shared collateral	"	
Secured bank loans	Land Bank of Taiwan	86,868	2024.11.1~2025.4.30	"	150,000	"	
"	"	10,034	2024.12.2~2025.5.31	"	Shared collateral	"	
Secured bank loans	Taiwan Business Bank, Ltd.	81,477	2024.9.2~2025.3.2	"	100,000	"	
Secured bank loans	Mega International Commercial Bank Co., Ltd	49,930	2024.12.31~2025.4.30	"	120,000	"	
Secured bank loans	First Commercial Bank	37,150	2024.7.15~2025.1.15	"	130,000	"	
"	"	41,804	2024.7.31~2025.7.31	"	Shared collateral	"	
"	"	9,097	2024.12.2~2025.9.30	"	"	"	
"	"	12,219	2024.12.31~2025.9.30	"	"	"	
Secured bank loans	Far Eastern International Bank	53,650	2024.9.30~2025.3.28	"	80,000	"	
Secured bank loans	Bank of Taiwan	136,091	2024.6.25~2025.6.21	"	300,000	"	
L/C loans	Bank of Taiwan	231,117	2024.12.2~2025.2.24	"	Shared collateral	"	
L/C loans	First Commercial Bank	5,479	2024.10.4~2025.4.1	"	130,000	"	
		<u>\$ 1,036,990</u>			<u>1,420,000</u>		

Note: The interest rate ranges from 2.26%~3.61% The borrowings are primarily secured by restricted repayment accounts or by property, plant and equipment. For details of the pledged assets, please refer to Note 8.

HWACOM SYSTEMS INC.

Statement of Contract assets—current

December 31, 2024

(Expressed in thousands of New Taiwan Dollars)

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Company F		\$ 124,534	
Company C		103,537	
Company K		93,580	
Company E		64,656	
Company L		57,208	
Others (Note)		<u>494,523</u>	
Total		<u><u>\$ 938,038</u></u>	

Note: The balance of each Client does not exceed 5% of the account balance.

Statement of accounts payable

<u>Client name</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Company M		\$ 191,706	
Company N		69,311	
Company O		56,310	
Company P		78,596	
Others (Note)		<u>580,147</u>	
Total		<u><u>\$ 976,070</u></u>	

Note: The balance of each vendor do not exceed 5% of the account balance.

HWACOM SYSTEMS INC.**Statement of other payables****December 31, 2024****(Expressed in thousands of New Taiwan Dollars)**

Item	Description	Amount
Salaries and bonuses payable		\$ 219,365
Employees' compensation and directors' remuneration payable		25,238
Sales tax payable		39,651
Others (Note)		37,325
Total		<u><u>\$ 321,579</u></u>

Note: The balance of each vender do not exceed 5% of the account balance.

Statement of operating revenue

Item	Amount	Note
Sales of goods	\$ 3,710,002	
Revenue from maintenance services	1,078,216	
Revenue from construction services	458,139	
Revenue from rendering of services	142,219	
Other operating revenue (Note)	30,285	
	<u><u>\$ 5,418,861</u></u>	

Note: Because it includes rental warranty, etc., it is not the same counting unit, so the quantity is not listed.

HWACOM SYSTEMS INC.

Statement of operating costs

For the year ended December 31, 2024

(Expressed in thousands of New Taiwan Dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>	<u>Note</u>
Inventories, January 1		\$ 1,143,762	
Add: Purchase		3,797,502	
Less: Inventories, December 31		(1,964,374)	
Cost of goods sold		2,976,890	
Service Costs		76,645	
Maintenance Costs		732,071	
Construction Costs		368,175	
Other Operating Costs		73,286	
Loss on Inventory Valuation (or Reversal of Write-down)		<u>13,945</u>	
Total		<u><u>\$ 4,241,012</u></u>	

Statement of operating expenses

<u>Item</u>	<u>Selling expenses</u>	<u>Administrative expenses</u>	<u>Research and development expenses</u>	<u>Total</u>
Salary and wages expenses	\$ 392,618	189,179	47,847	629,644
Insurance expenses	26,446	10,524	4,214	41,184
Social expenses	16,259	15,388	75	31,722
Depreciation	68,794	9,626	2,976	81,396
Others (Note)	<u>149,275</u>	<u>55,847</u>	<u>11,559</u>	<u>216,681</u>
Total	<u><u>\$ 653,392</u></u>	<u><u>280,564</u></u>	<u><u>66,671</u></u>	<u><u>1,000,627</u></u>

Note: The balance of each vendor do not exceed 5% of the account balance.