

APOGEE OPTOCOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT AUDITORS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

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The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

Independent Auditors' Report Translated from Chinese

To APOGEE OPTOCOM CO., LTD.

Opinion

We have audited the accompanying consolidated balance sheets of APOGEE OPTOCOM CO.LTD. (the “Company”) and its subsidiaries (the “Group”) as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2023 and 2022, and notes to the consolidated financial statements, including the summary of material accounting policies (together “the consolidated financial statements”).

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company audits subsidiaries as of December 31, 2023 and 2022, and their consolidated financial performance and cash flows for the year ended December 31 2023 and 2022, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Financial Statement Audit and Attestation Engagements of Certified Public Accountants and the Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the report(s) of the, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Revenue recognition

The main business of the Company and its subsidiaries is to produce and sell film filters. For the year ended 31 December 2023, the Company recognized revenue in the amount of NT\$362,789 thousand. The Company and its subsidiaries recognized revenue when promised products are transferred to customers and meet performance obligations. As the product contracts contain different transaction terms, which may cause the income to be recognized at an inappropriate time, we determined this a key audit matter .

Our audit procedures included, but were not limited to, assessing and testing the effectiveness of the internal control design and execution regarding timing of meeting performance obligation in the sales cycle. This includes selecting samples to test the details of sales transactions; checking the significant terms of the contract and checking the original sales orders, invoices, export declarations, signed receipts from customer; performing cut-off testing for a period before and after the balance sheet date by tracing to relevant supporting documents to verify that revenue have been recognized in correct periods, and review whether there was significant sales returns after the balance sheet date .

We also assessed the adequacy of disclosures of operating revenues. Please refer to Note VI to the consolidated financial statements.

Valuation for slow-moving inventories

As of 31 December 2023, the Group's net inventories amounted to NT\$120,485 thousand, which accounted for 10% of total consolidated asset, which is significant for the consolidated financial statements. Since the inventory are mainly customized orders of optical communication coating products, and the evaluation of allowances for sluggish or obsolete inventories involves significant management judgment, we determined this as a key audit matter.

Our audit procedures included, but not limited to, assessing and testing the effectiveness of the internal control design and execution regarding provisioning policy of obsolescence inventory, including observing the physical count to confirm whether the inventory is slow-moving, evaluating the adequacy of management's provisioning policy of obsolescence loss, testing the accuracy of inventory aging on a sampling basis, analyzing the changes in inventory aging and assessing the inventory that needed to be individually provisioned for slow-moving losses; and recalculating allowance for inventory valuation loss, to ensure that the valuation for slow-moving inventories followed the Company's accounting policies.

We also assessed the adequacy of disclosures of inventories. Please refer to Notes V and VI to the consolidated financial statements.

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

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

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

Those charged with governance, including audit committee or supervisors, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2023 consolidated financial statements 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.

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the year ended 31 December , 2023 and 2022.

Ernst & Young, Taiwan

Huang, Shih-Chieh

Hong, Guo Sen

8 March 2024

Notice to Readers

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

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Consolidated Financial Statements Originally Issued in Chinese
APOGEE OPTOCOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
31 December 2023 and 2022
(Expressed in thousands of New Taiwan Dollars)

ASSETS	Note	31 Dec. 2023	31 Dec. 2022
Current assets			
Cash and cash equivalents	IV/VI. 1	\$205,898	\$395,219
Financial assets measured at amortized cost - current	IV/VI. 3	306,442	234,405
Notes receivable, net	IV/VI. 4	159	-
Accounts receivable, net	IV/VI. 5	108,155	133,710
Current tax assets	IV	13,876	-
Inventories, net	IV/VI. 6	120,485	109,650
Other current assets		29,513	33,012
Total current assets		<u>784,528</u>	<u>905,996</u>
Non-current assets			
Non-current financial assets at fair value through other comprehensive income	IV/VI. 2	6,073	1,498
Property, plant and equipment	IV/VI. 7	349,295	460,438
Right-of-use assets	IV/VI.13	39,605	48,355
Deferred tax assets	IV/VI.17	57,445	28,766
Other non-current assets-others		10,192	10,132
Total non-current assets		<u>462,610</u>	<u>549,189</u>
Total assets		<u><u>\$1,247,138</u></u>	<u><u>\$1,455,185</u></u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
APOGEE OPTOCOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2023 and 2022
(Expressed in thousands of New Taiwan Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 Dec. 2023	31 Dec. 2022
Current liabilities			
Short-term loans	IV/ VI.8	\$7,500	\$7,500
Notes payables	IV	384	517
Accounts payable	IV	18,715	14,090
Other payables	IV	63,620	68,766
Current tax liabilities	IV/VI.17	-	15,623
Current lease liabilities	IV/VI.13	12,375	11,323
Other current liabilities		1,237	1,113
Total current liabilities		<u>103,831</u>	<u>118,932</u>
Non-current liabilities			
Non-current lease liabilities	IV/VI.13	27,889	37,537
Other non-current liabilities		260	260
Total non-current liabilities		<u>28,149</u>	<u>37,797</u>
Total liabilities		<u>131,980</u>	<u>156,729</u>
Equity attributable to owners of parent	VI.10		
Ordinary share		385,090	385,090
Capital surplus		692,441	692,441
Retained earnings			
Legal reserve		94,635	85,678
Special reserve		25,403	24,880
Unappropriated retained earnings		(54,083)	135,770
Total retained earnings		<u>65,955</u>	<u>246,328</u>
Other equity		<u>(28,328)</u>	<u>(25,403)</u>
Total equity		<u>1,115,158</u>	<u>1,298,456</u>
Total liabilities and equity		<u>\$1,247,138</u>	<u>\$1,455,185</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
APOGEE OPTOCOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of New Taiwan Dollars)

ITEMS	Note	For the year ended December 31,	
		2023	2022
Operating income	IV/VI.11	\$362,789	\$623,993
Operating costs	IV/VI.6,9,14	(326,077)	(367,727)
Gross profit from operations		36,712	256,266
Operating expenses	IV/VI.9, 12, 13, 14/VII		
Sales and marketing expenses		(14,895)	(11,799)
General and administrative expenses		(73,940)	(74,745)
Research and development expenses		(94,040)	(97,995)
Expected credit impairment (loss) gain		(1,272)	1,275
Total operating expenses		(184,147)	(183,264)
Operating (loss) profit		(147,435)	73,002
Non-operating income and expenses	IV/VI.15		
Other income		14,075	7,103
Other gains and losses		(2,049)	32,542
Finance costs		(825)	(888)
Total non-operating income and expenses		11,201	38,757
Profit (loss) from continuing operations before tax		(136,234)	111,759
Income tax profit (expense)	IV/VI.17	32,879	(22,189)
Net (loss) income		(103,355)	89,570
Other comprehensive income	IV/VI.16		
Items that will not be reclassified subsequently to profit or loss			
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income		(2,925)	(523)
Total other comprehensive income, net of tax		(2,925)	(523)
Total comprehensive income		<u>\$(106,280)</u>	<u>\$89,047</u>
Net profit belongs to:			
Shareholders of the parent		<u>\$(103,355)</u>	<u>\$89,570</u>
Comprehensive income attributable to:			
Shareholders of the parent		<u>\$(106,280)</u>	<u>\$89,047</u>
Earnings per share (NTD)	IV/VI.18		
Earnings per share-basic		<u>\$(2.68)</u>	<u>\$2.33</u>
Earnings per share-diluted		<u>\$(2.68)</u>	<u>\$2.32</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
APOGEE OPTOCOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of New Taiwan Dollars)

ITEMS	Equity attributable to parent company						Total equity
	Ordinary share	Capital surplus	Retained earnings			Other Equity interest	
			Legal Reserve	Special Reserve	Unappropriated retained earnings	Unrealized Gains (Losses) on Equity Instruments Measured at Fair Value Through Other Comprehensive Income	
Balance as of 1 January, 2022	\$385,090	\$692,441	\$84,508	\$19,156	\$130,112	\$(24,880)	\$1,286,427
Legal reserve	-	-	1,170	-	(1,170)	-	-
Special reserve	-	-	-	5,724	(5,724)	-	-
Cash dividends of Common stock	-	-	-	-	(77,018)	-	(77,018)
Net income for the year ended December 31, 2022	-	-	-	-	89,570	-	89,570
Other comprehensive income for the year ended December 31, 2022	-	-	-	-	-	(523)	(523)
Total comprehensive income	-	-	-	-	89,570	(523)	89,047
Balance as of December 31, 2022	<u>\$385,090</u>	<u>\$692,441</u>	<u>\$85,678</u>	<u>\$24,880</u>	<u>\$135,770</u>	<u>\$(25,403)</u>	<u>\$1,298,456</u>
Balance as of January 1, 2023	\$385,090	\$692,441	\$85,678	\$24,880	\$135,770	\$(25,403)	\$1,298,456
Legal reserve	-	-	8,957	-	(8,957)	-	-
Special reserve	-	-	-	523	(523)	-	-
Cash dividends of Common stock	-	-	-	-	(77,018)	-	(77,018)
Net income for the year ended December 31, 2023	-	-	-	-	(103,355)	-	(103,355)
Other comprehensive income for the year ended December 31, 2023	-	-	-	-	-	(2,925)	(2,925)
Total comprehensive income	-	-	-	-	(103,355)	(2,925)	(106,280)
Balance as of December 31, 2023	<u>\$385,090</u>	<u>\$692,441</u>	<u>\$94,635</u>	<u>\$25,403</u>	<u>\$(54,083)</u>	<u>\$(28,328)</u>	<u>\$1,115,158</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese
APOGEE OPTOCOM CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022
(Expressed in thousands of New Taiwan Dollars)

ITEMS	For the year ended December 31,		ITEMS	For the year ended December 31,	
	2023	2022		2023	2022
Cash flows from operating activities:			Cash flows from investing activities:		
Profit (loss) before tax	\$(136,234)	\$111,759	Acquisition of financial asset at fair value through other comprehensive income	(7,500)	-
Adjustments:			Acquisition of financial assets at amortised cost	(72,037)	(124,405)
Adjustments to reconcile profit (loss):			Acquisition of financial assets at fair value through profit or loss	(517)	(284)
Depreciation expense	162,668	170,697	Acquisition of property, plant and equipment	(39,139)	(17,230)
Amortization expense	739	944	Increase in prepayments for business facilities	(788)	(5,395)
Expected credit loss (gain)	1,272	(1,275)	Net cash used in investing activities	<u>(119,981)</u>	<u>(147,314)</u>
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	517	284	Cash flows from financing activities:		
Interest expense	825	888	Decrease in short-term loans	-	(10,000)
Interest income	(10,372)	(3,413)	Increase in guarantee deposits received	-	100
Changes in operating assets and liabilities:			Payments of lease liabilities	(12,789)	(11,879)
(Increase) decrease in notes receivable	(159)	147	Cash dividends paid	(77,018)	(77,018)
Decrease in accounts receivable	24,283	17,418	Net cash used in financing activities	<u>(89,807)</u>	<u>(98,797)</u>
(Increase) decrease in inventories	(10,835)	4,484	Net (decrease) increase in cash and cash equivalents	(189,321)	59,862
Decrease in other current assets	3,405	4,070	Cash and cash equivalents, at beginning of period	395,219	335,357
(Increase) in other non current assets	(11)	(126)	Cash and cash equivalents, at end of period	<u>\$205,898</u>	<u>\$395,219</u>
(Decrease) Increase in notes payable	(133)	47			
Increase in accounts payable	4,625	1,788			
(Decrease) in other account payables	(5,141)	(1,018)			
Increase (Decrease) in other current liabilities	124	(19)			
Cash inflow generated from operations	<u>35,573</u>	<u>306,675</u>			
Interest received	10,466	3,067			
Interest paid	(273)	(193)			
Income taxes paid	(25,299)	(3,576)			
Net cash flows from operating activities	<u>20,467</u>	<u>305,973</u>			