

Formosa Optical Technology Corporation

**Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Formosa Optical Technology Corporation

Opinion

We have audited the accompanying financial statements of Formosa Optical Technology Corporation (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, 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 Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in 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 for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. 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.

For the year ended December 31, 2019, the key audit matters identified in the Company's financial statements were as follows:

Allowance for Loss of Inventory

The management's assessment of the net realizable value of inventory involves significant judgments, in particular, the estimation of the allowance for loss of inventory. Therefore, we considered the estimation of allowance for loss of inventory to be a key audit matter.

The audit procedures that we performed in respect of testing the net realizable value of inventories are as follows:

1. We understood the Company's business and industry and management's controls on the normal and stagnant inventories and determined the effectiveness of the implementation of its internal control.
2. We tested the ending balance of the carrying amount of inventory through sampling and recalculating the latest purchases and sales records, and we verified the calculation of inventory based on the lower of cost and tested the accuracy of the ending balance of inventory's net reliable value.
3. We obtained the inventory aging report and participated in the year-end inventory inspection of the Company, and we evaluated the reasonableness of the estimated allowance for inventory losses on obsolete and damaged products based on the year-end inventory inspection.

Refer to Notes 4, 5 and 9 for accounting policies, critical accounting judgements, estimation, and assumption uncertainty in relation to impairment loss of inventory.

Allowance for Sales Returns and Discounts from Investments Using the Equity Method

Among the investments using the equity method, part of the revenue is based on contractual agreements which provide sales returns and allowances to clients. The management recognized a deduction of share of profit of associates accounted for using the equity method. Since the accuracy of the share of profit of associates accounted for using the equity method was significant to the consolidated financial statements as a whole, we identified revenue from investments using the equity method as one of the key audit matters.

The main audit procedures that we performed in respect of the allowances for sales returns and discounts were the following: We communicated with the audit team to obtain an understanding of the rationality of their tests on the investees' revenue recognition procedure to fully understand the testing of the relevant control for sales and collection cycle. We also inspected the test of controls for relevant sales contracts and documents, important clients' changes in transactions, and conducted analytical procedures for changes in revenue for each product. In addition, we performed sampling tests on sales transactions before and after the year end to verify that revenue was recognized in the proper period and that revenue and sales returns and allowances were recorded according to relevant IAS regulations.

Impairment of Inventory from Investments Using the Equity Method

Among the investments accounted for using the equity method, part of the production and sales were from corneal contact lens (contact lens), lens care products, and eyes health products. The Group developed products in response to market demand because its products are unique. Demand for relevant products may fluctuate when market demand and price change. Inventories are measured based on the lower of cost or net realizable value. Management also evaluated the inventories based on the relevant information from internal and external sources. Because the impact on the investments accounted for using equity method was significant to the financial statements, we identified the investees' evaluation of impairment of inventory as one of the key audit matters.

The main audit procedures performed in respect of impairment of inventory from investments using the equity method were the following: We communicated with the audit team to understand the rationality of the investees' allowance for impairment of inventory, which included the reasonableness of the allowance for loss of inventory or the recognition policy for inventory losses, and verified that such inventories were recorded according to relevant IAS regulations. We also inspected inventory aging report, analyzed the changes of inventory aging report and sales status, verified the net realizable value to evaluate the reasonableness of the allowance for loss of inventory which was disclosed by management.

Impairment Loss of Trade Receivables from Investments Using Equity Method

Among the investments accounted for using the equity method, part of the production and sales were from corneal contact lens (contact lens), lens care products, and eye health products. Due to the special nature of the industry, management needed to evaluate the impairment of trade receivables from major clients based on the relevant internal and external information sources. Because the impact on the investments accounted for using the equity method to the financial statements was significant, we identified trade receivables of investees as one of the key audit matters.

The main audit procedures that we performed in respect of trade receivables were the following: We communicated with the audit team to understand the rationality of the impairment of trade receivables of investees, which included the reasonableness of recognition of allowance for impairment loss of trade receivables, verified that such trade receivables were recorded according to relevant IAS regulations. We also inspected trade receivables aging report, analyzed the changes of trade receivables aging report, sample-tested the sent external confirmations, and tested the recoverability of trade receivables after the period end to evaluate the reasonableness of management's allowance for impairment loss of trade receivables which were disclosed by management.

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 supervisors, 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 auditing standards generally accepted in 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 auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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 entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the company audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 for the year ended December 31, 2019 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 Tsai-Cheng Tsai and Yung-Hsiang Chao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 27, 2020

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance 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 audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Note 6)	\$ 61,326	1	\$ 117,767	3
Financial assets at fair value through other comprehensive income - current (Note 7)	-	-	45,220	1
Notes receivable, net	-	-	16	-
Trade receivables, net (Note 8)	7,177	-	18,199	-
Other receivables (Note 24)	25,317	1	23,445	1
Inventories, net (Notes 5 and 9)	398,854	8	364,133	9
Prepayments	21,513	1	22,457	-
Total current assets	514,187	11	591,237	14
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Note 7)	98,438	2	79,286	2
Investments accounted for using the equity method (Notes 5 and 10)	2,512,335	52	2,360,026	58
Property, plant and equipment, net (Notes 11, 24 and 25)	955,609	20	921,374	23
Right-of-use assets (Notes 3 and 12)	568,755	12	-	-
Investment properties, net (Notes 13 and 25)	81,296	2	82,320	2
Intangible assets, net	14,031	-	9,201	-
Deferred tax assets (Note 20)	9,186	-	8,744	-
Refundable deposits (Note 26)	52,870	1	52,536	1
Net defined benefit assets - non-current (Note 16)	8,703	-	4,361	-
Total non-current assets	4,301,223	89	3,517,848	86
TOTAL	\$ 4,815,410	100	\$ 4,109,085	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	\$ 80,000	2	\$ -	-
Notes payable (Note 24)	304,513	6	300,022	7
Trade payables	41,433	1	36,703	1
Other payables (Notes 15 and 24)	275,254	6	251,221	6
Current tax liabilities (Note 20)	9,200	-	38,328	1
Lease liabilities - current (Notes 3 and 12)	191,178	4	-	-
Current portion of long-term borrowings (Note 14)	26,629	1	32,262	1
Other current liabilities	23,550	-	26,157	1
Total current liabilities	951,757	20	684,693	17
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 14)	447,190	10	545,319	13
Provisions - non-current	7,115	-	5,783	-
Deferred tax liabilities (Note 20)	293,875	6	288,657	7
Lease liabilities - non-current (Notes 3 and 12)	382,659	8	-	-
Guarantee deposits received (Note 15)	206,187	4	211,296	5
Total non-current liabilities	1,337,026	28	1,051,055	25
Total liabilities	2,288,783	48	1,735,748	42
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY (Note 17)				
Ordinary shares	600,599	12	600,599	15
Capital surplus	483,457	10	483,443	12
Retained earnings				
Legal reserve	382,032	8	356,680	8
Special reserve	207,685	4	113,739	3
Unappropriated earnings	1,095,423	23	1,026,561	25
Total retained earnings	1,685,140	35	1,496,980	36
Other equity	(242,569)	(5)	(207,685)	(5)
Total equity	2,526,627	52	2,373,337	58
TOTAL	\$ 4,815,410	100	\$ 4,109,085	100

The accompanying notes are an integral part of the financial statements.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 18)	\$ 2,322,314	100	\$ 2,199,888	100
COST OF GOODS SOLD (Notes 9 and 24)	<u>(948,721)</u>	<u>(41)</u>	<u>(899,606)</u>	<u>(41)</u>
GROSS PROFIT	<u>1,373,593</u>	<u>59</u>	<u>1,300,282</u>	<u>59</u>
OPERATING EXPENSES (Notes 19 and 24)				
Selling and marketing expenses	(1,126,381)	(49)	(1,058,947)	(48)
General and administrative expenses	<u>(98,789)</u>	<u>(4)</u>	<u>(90,927)</u>	<u>(4)</u>
Total operating expenses	<u>(1,225,170)</u>	<u>(53)</u>	<u>(1,149,874)</u>	<u>(52)</u>
PROFIT FROM OPERATION INCOME	<u>148,423</u>	<u>6</u>	<u>150,408</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 19 and 24)	55,840	3	45,231	2
Other gains and losses (Notes 19 and 24)	3,300	-	268	-
Finance costs (Note 19)	(16,303)	(1)	(7,723)	(1)
Share of profit of associates	<u>246,432</u>	<u>11</u>	<u>177,744</u>	<u>8</u>
Total non-operating income and expenses	<u>289,269</u>	<u>13</u>	<u>215,520</u>	<u>9</u>
PROFIT BEFORE INCOME TAX	437,692	19	365,928	16
INCOME TAX EXPENSE (Notes 4 and 20)	<u>(58,640)</u>	<u>(3)</u>	<u>(112,411)</u>	<u>(5)</u>
NET PROFIT FOR THE YEAR	<u>379,052</u>	<u>16</u>	<u>253,517</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	1,698	-	993	-
Unrealized gain on investments in equity instruments at fair value through other comprehensive income	55,531	3	36,144	2
Share of the other comprehensive (loss) income of associates accounted for using the equity method	(40)	-	4	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	<u>(340)</u>	<u>-</u>	<u>(58)</u>	<u>-</u>
	<u>56,849</u>	<u>3</u>	<u>37,083</u>	<u>2</u>

(Continued)

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	\$ (151,812)	(7)	\$ 9,080	-
Share of other comprehensive income (loss) of associates for using the equity method	70,691	3	(12,212)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>16,264</u>	<u>1</u>	<u>3,789</u>	<u>-</u>
	<u>(64,857)</u>	<u>(3)</u>	<u>657</u>	<u>-</u>
Other comprehensive (loss) income for the year, net of income tax	<u>(8,008)</u>	<u>-</u>	<u>37,740</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 371,044</u>	<u>16</u>	<u>\$ 291,257</u>	<u>13</u>
EARNINGS PER SHARE (Note 21)				
Basic	<u>\$ 6.31</u>		<u>\$ 4.22</u>	
Diluted	<u>\$ 6.29</u>		<u>\$ 4.21</u>	

The accompanying notes are an integral part of the financial statements.

(Concluded)

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Issue of Share Capital		Capital Surplus	Retained Earnings		Unappropriated Earnings	Other Equity			Total
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve		Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2018	60,060	\$ 600,599	\$ 483,410	\$ 50,841	\$ 962,609	\$ (85,881)	\$ -	\$ -	\$ 2,309,987	
Effect of retrospective application and retrospective restatement	-	-	-	-	163,012	-	-	(190,582)	288	
BALANCE AT JANUARY 1, 2018, AS RESTATED	60,060	600,599	483,410	50,841	1,125,621	(85,881)	-	(190,582)	2,310,275	
Appropriation of the 2017 earnings	-	-	-	-	(30,413)	-	-	-	-	
Legal reserve	-	-	30,413	-	(62,898)	-	-	-	-	
Special reserve	-	-	-	62,898	(228,228)	-	-	-	(228,228)	
Cash dividends	-	-	-	-	-	-	-	-	-	
Other changes in capital surplus	-	-	-	-	-	-	-	-	33	
Changes in capital surplus from investments in associates using the equity method	-	-	33	-	-	-	-	-	-	
Net profit for the year ended December 31, 2018	-	-	-	-	253,517	-	-	-	253,517	
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	938	363	-	36,439	37,740	
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	254,455	363	-	36,439	291,257	
Disposal of investments in equity instruments designated fair value through other comprehensive income	-	-	-	-	(31,976)	-	-	-	-	
BALANCE AT DECEMBER 31, 2018	60,060	600,599	483,443	113,739	1,026,561	(85,518)	-	(122,167)	2,373,337	
Effect of retrospective application and retrospective restatement	-	-	-	-	(7,282)	-	-	-	(7,282)	
BALANCE AT JANUARY 1, 2019, AS RESTATED	60,060	600,599	483,443	113,739	1,019,279	(85,518)	-	(122,167)	2,366,055	
Appropriation of the 2018 earnings	-	-	-	-	(25,352)	-	-	-	-	
Legal reserve	-	-	25,352	-	(93,946)	-	-	-	-	
Special reserve	-	-	-	93,946	(228,228)	-	-	-	(228,228)	
Cash dividends	-	-	-	-	-	-	-	-	-	
Other changes in capital surplus	-	-	-	-	-	-	-	-	-	
Changes in capital surplus from investments in associates using the equity method	-	-	14	-	17,742	-	-	-	17,756	
Net profit for the year ended December 31, 2019	-	-	-	-	379,052	-	-	-	379,052	
Other comprehensive income for the year ended December 31, 2019, net of income tax	-	-	-	-	1,318	(65,053)	-	55,729	(8,008)	
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	380,370	(65,053)	-	55,729	371,044	
Disposal of investments in equity instruments designated fair value through other comprehensive income	-	-	-	-	25,558	-	-	-	-	
BALANCE AT DECEMBER 31, 2019	60,060	\$ 600,599	\$ 483,457	\$ 207,685	\$ 1,095,423	\$ (150,573)	\$ -	\$ (91,995)	\$ 2,576,627	

The accompanying notes are an integral part of the financial statements.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 437,692	\$ 365,928
Adjustments for:		
Depreciation expenses	298,801	63,560
Amortization expenses	4,872	3,576
Finance costs	16,303	7,723
Interest income	(7,630)	(7,066)
Share of profits of subsidiaries and associates	(246,432)	(177,744)
Net loss on disposal of inventories	7,741	10,535
Net gain on disposal of property, plant and equipment	(217)	(264)
Gain on disposal of investments accounted for using equity the method	(1,029)	-
Net gain on fair value change of financial assets as at FVTPL	(51)	-
Gain on lease modification	(2,006)	-
Changes in operating assets and liabilities		
Notes receivable	16	(15)
Trade receivables	11,022	(6,872)
Other receivables	(1,872)	(1,126)
Inventories	(42,462)	(20,908)
Prepayments	944	(5,411)
Net defined benefit liabilities - non-current	(2,645)	(2,611)
Notes payable	4,491	71,515
Trade payables	4,730	(144)
Other payables	24,031	29,690
Provisions	-	472
Other current liabilities	(2,607)	4,031
Cash generated from operations	503,692	334,869
Interest received	7,630	7,066
Dividends received	42,870	164,156
Interest paid	(16,095)	(7,738)
Income tax paid	(67,068)	(51,914)
Net cash generated from operating activities	<u>471,029</u>	<u>446,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from financial assets at fair value through other comprehensive income	99,394	3,024
Purchase of financial assets at fair value through other comprehensive income	(34,280)	-
Purchase of financial assets at fair value through profit or loss	(125,000)	-
Proceeds from sale of financial assets at fair value through profit or loss	125,051	-
Proceed from sale of investments accounted for using the equity	3,485	-
Payments for property, plant and equipment	(107,495)	(50,813)
Proceeds from disposal of property, plant and equipment	607	367

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FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Payments for investment properties	\$ (36)	\$ -
Decrease in refundable deposits	(334)	(1,624)
Payments for intangible assets	<u>(9,702)</u>	<u>(6,132)</u>
Net cash used in investing activities	<u>(48,310)</u>	<u>(55,178)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term borrowings	80,000	(60,000)
Repayments of long-term borrowings	(103,762)	(31,899)
Proceeds from guarantee deposits received	(5,109)	2,030
Repayment of the principal of lease liabilities	(222,061)	-
Capital increased by cash	-	(20,000)
Cash dividends	<u>(228,228)</u>	<u>(228,228)</u>
Net cash used in financing activities	<u>(479,160)</u>	<u>(338,097)</u>
NET (DECREASE) INCREASE IN CASH	(56,441)	53,164
CASH AT THE BEGINNING OF THE YEAR	<u>117,767</u>	<u>64,603</u>
CASH AT THE END OF THE YEAR	<u>\$ 61,326</u>	<u>\$ 117,767</u>

The accompanying notes are an integral part of the financial statements.

(Concluded)

FORMOSA OPTICAL TECHNOLOGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Formosa Optical Technology Corporation (the “Company”) was established in November 1989 and is mainly engaged in optical glasses. The Company’s shares have been listed on the mainboard of Taipei Exchange (“TPEX”) since May 1996.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 27, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company’s accounting policies:

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Company elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the statements of comprehensive income, The Company presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the statements of cash flows. Leased assets and finance lease payables were recognized on the balance sheets for contracts classified as finance leases.

The Company elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities since the commencement date. The Company applies IAS 36 to all right-of-use assets.

The Company also applies the following practical expedients:

- 1) The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Company uses hindsight, such as in determining lease terms, to measure lease liabilities.

For leases previously classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 are determined as at the carrying amounts of the respective leased assets and finance lease payables on December 31, 2018.

The lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.39%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 573,332
Less: Recognition exemption for short-term leases and leases of low-value assets	<u>(2,759)</u>
Undiscounted amount on January 1, 2019	<u>\$ 570,573</u>
Discounted amount using the incremental borrowing rate on January 1, 2019	<u>\$ 556,519</u>

The Company as lessor

The Company does not make any adjustments for leases in which it is a lessor, and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 551,114	\$ 551,114
Investments accounted for using the equity method	<u>2,360,025</u>	<u>(1,876)</u>	<u>2,358,149</u>
Total effect on assets	<u>\$ 2,360,025</u>	<u>\$ 549,238</u>	<u>\$ 2,909,263</u>
Lease liabilities - current	\$ -	\$ 188,667	\$ 188,667
Lease liabilities - non-current	<u>-</u>	<u>367,853</u>	<u>367,853</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 556,520</u>	<u>\$ 556,520</u>
Retained earnings	<u>\$ 1,496,980</u>	<u>\$ (7,282)</u>	<u>\$ 1,489,698</u>
Total effect on equity	<u>\$ 1,496,980</u>	<u>\$ (7,282)</u>	<u>\$ 1,489,698</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, The Company is continuously assessing the possible impact that the application of other standards and interpretations will have on The Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the financial statements were authorized for issue, The Company is continuously assessing the possible impact that the application of other standards and interpretations will have on The Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries and associates, the share of other comprehensive income of subsidiaries and associates, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e., foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting the financial statements, the assets and liabilities of the Company's foreign operations (including subsidiaries that use currencies which are different from the currency of the Company) are translated into New Taiwan dollars using the exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences are recognized in other comprehensive income.

e. Inventories

Inventories are products. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less selling and marketing expenses. Inventories are recorded at their weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Investments in associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary.

Investments in associates are accounted for using the equity method.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of equity of associates attributable to the Company.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Company's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the investment and the carrying amount is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

h. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If an asset's lease term is shorter than its useful life, such an asset is depreciated over the lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of such assets is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. Reversals of impairment loss are recognized in profit or loss.

1. Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to an acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement category

Financial assets are classified into the following categories: Financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at amortized cost

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

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and trade receivables, at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and

- ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

ii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost including trade receivables.

The Company always recognizes lifetime expected credit losses (ECLs) for trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

m. Provisions

Provisions, including those arising from contractual obligations specified in service concession arrangements to maintain or restore infrastructure before it is handed over to the grantor and levies imposed by governments, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

The Company identifies contracts with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods comes from sales of optical glasses. Sales of goods are recognized as revenue when the goods are shipped or delivered to the customer because that is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently.

o. Leases

2019

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

1) The Company as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Company as lessee

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

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

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on The Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized.

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

3) Leasehold land for own use

When a lease includes both land and building elements, the Company assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the lessee. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Allowance for inventory valuation losses

We evaluated the ending balance of inventory's net reliable value with the lower of cost or net realizable value method. The Company assesses the amount of obsolete inventory or no market sales value at the end of the financial reporting period and reduces the inventory cost to the net realizable value. This inventory assessment is based primarily on the estimated product demand for a specific period of time in the future and may result in significant changes.

b. Share of profit of associates

1) Allowance for sales returns and discounts from investments under equity method

The associates are required to provide sales discounts and returns based on the contractual arrangements with the customers. In making such judgments, management needs to consider whether sales discounts, returns and provisions meet the contract agreements. Provision for liabilities, as these assessments are based on management's assessment and judgment of contracts for different customers based on current sales, may affect the results of the estimates.

2) Allowance for inventory valuation losses from investments under equity method

The net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and uniqueness of the product. Changes in market conditions may have a material impact on the estimation of net realizable value.

3) Impairment loss on trade receivables from investments under equity method

The associates consider the estimates of the future cash flows of the accounts receivable. The amount of the expected credit loss of the accounts receivable is the difference between the carrying amount and the estimates of future cash flows (excluding future credit losses that have not yet occurred). Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2019	2018
Cash on hand	\$ 10,815	\$ 18,339
Checking accounts and demand deposits	<u>50,511</u>	<u>99,428</u>
	<u>\$ 61,326</u>	<u>\$ 117,767</u>

7. FINANCIAL ASSETS AT FVTOCI

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Investments in equity instruments at FVTOCI		
Domestic investments		
Listed shares and emerging market shares - ordinary shares	\$ _____	<u>\$ 45,200</u>
<u>Non-current</u>		
Investments in equity instruments at FVTOCI		
Domestic investments		
Unlisted ordinary shares	<u>\$ 98,438</u>	<u>\$ 79,286</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium- to long-term strategic purposes.

8. TRADE RECEIVABLES

	<u>December 31</u>	
	2019	2018
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 7,285	\$ 18,307
Less: Allowance for impairment loss	<u>(108)</u>	<u>(108)</u>
	<u>\$ 7,177</u>	<u>\$ 18,199</u>

The primary trade receivables were receivables of credit cards from National Credit Card Center of R.O.C., CTBC Bank Co., Ltd., department stores and malls. The Company adopted a policy of only dealing with entities that are rated the equivalents of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

In order to minimize the credit risk, the management of the Company has regularly evaluated for credits approvals and carried out other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by FIRS 9, which permits the use of lifetime expected loss provisions for all trade receivables.

The aging of receivables was as follows:

	December 31	
	2019	2018
0-30 days	\$ 6,244	\$ 17,452
31-60 days	<u>1,041</u>	<u>855</u>
	<u>\$ 7,285</u>	<u>\$ 18,307</u>

Movements in allowances of the loss allowance of trade receivables were as follows:

	December 31	
	2019	2018
Balance at January 1	\$ 108	\$ 108
Add: Expected credit loss	<u>-</u>	<u>-</u>
Balance at December 31	<u>\$ 108</u>	<u>\$ 108</u>

9. INVENTORIES, NET

	December 31	
	2019	2018
Merchandise	<u>\$ 398,854</u>	<u>\$ 364,133</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 were \$948,721 thousand and \$899,606 thousand, respectively.

The cost of goods sold included the inventory reversals and disposals is as follows:

	For the Year Ended December 31	
	2019	2018
Inventory reversals	\$ 966	\$ 5,004
Loss of inventory scrapped and physical inventories	7,741	10,535

Previous write-downs were reversed as a result of sold of inventory that had been write-downs.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2019	2018
Investments in subsidiaries	\$ 2,387,399	\$ 2,224,954
Investments in associates	<u>124,936</u>	<u>135,072</u>
	<u>\$ 2,512,335</u>	<u>\$ 2,360,026</u>

a. Investments in subsidiaries

	December 31	
	2019	2018
New Path International Co., Ltd.	\$ 2,179,719	\$ 2,032,199
Milanno Optical Co., Ltd.	13,237	23,456
Bao Wei Optical Co., Ltd.	173,540	143,404
Boa Xiang Optical Co., Ltd.	<u>20,903</u>	<u>25,895</u>
	<u>\$ 2,387,399</u>	<u>\$ 2,224,954</u>

Name of Company	Proportion of Ownership and Voting Rights	
	2019	2018
New Path International Co., Ltd.	100%	100%
Milanno Optical Co., Ltd.	100%	100%
Bao Wei Optical Co., Ltd.	100%	100%
Boa Xiang Optical Co., Ltd.	70%	70%

b. Investments in associates

	December 31	
	2019	2018
Material associates		
Polylite Taiwan Co., Ltd.	<u>\$ 124,936</u>	<u>\$ 135,072</u>

Name of Company	Proportion of Ownership and Voting Rights	
	2019	2018
Polylite Taiwan Co., Ltd.	13.98%	14.25%

Refer to Table 3 “Information on Investees” for the nature of activities, principal places of business and countries of incorporation of the associates.

The Company served as two of seven board of directors for PolyLite Taiwan Co., Ltd. Since the Company had significant control for PolyLite Taiwan Co., Ltd., the investment was accounted for using the equity method.

The Company disposed of 127 thousand shares of Polylite Taiwan Co., Ltd. in 2019 at a cash price of \$3,485 thousand. The gain on disposal of associates was \$1,029 thousand.

Fair values (Level 1) of investments in associates with available published price quotations are summarized as follows:

Name of Company	December 31	
	2019	2018
Polylite Taiwan Co., Ltd.	\$ 176,641	\$ 126,922

Summarized financial information in respect of each of the Company's material associates is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Company for equity accounting purposes.

Polylite Taiwan Co., Ltd.

	December 31	
	2019	2018
Current assets	\$ 406,835	\$ 423,413
Non-current assets	755,659	738,980
Current liabilities	(200,110)	(125,058)
Non-current liabilities	(29,834)	(19,837)
Non-controlling interests	<u>(38,520)</u>	<u>(69,557)</u>
Equity	\$ 894,030	\$ 947,941
Proportion of the Company's ownership	13.98%	14.25%
Equity attributable to the Company	\$ 124,936	\$ 135,072
Carrying amount	\$ 124,936	\$ 135,072
	For the Year Ended December 31	
	2019	2018
Operating revenue	\$ 498,931	\$ 459,358
Net profit for the year	\$ 49,142	\$ 63,922
Other comprehensive (loss) income	<u>(631)</u>	<u>5,046</u>
Total comprehensive income for the year	\$ 48,511	\$ 68,968
Dividends received from Polylite Taiwan Co., Ltd.	\$ 13,290	\$ 6,645

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Transportation Equipment	Office Equipment	Decoration Equipment	Leasehold improvement	Other Equipment	Total
Cost								
Balance at January 1, 2018	\$ 288,316	\$ 494,637	\$ 2,180	\$ 278,028	\$ 430,776	\$ 4,493	\$ 194	\$ 1,498,624
Additions	-	667	328	20,131	48,015	304	-	69,445
Disposals	-	-	(123)	(7,608)	(4,185)	-	-	(11,916)
Reclassification	-	-	-	1,374	(1,374)	-	-	-
Balance at December 31, 2018	<u>\$ 288,316</u>	<u>\$ 495,304</u>	<u>\$ 2,385</u>	<u>\$ 291,925</u>	<u>\$ 473,232</u>	<u>\$ 4,797</u>	<u>\$ 194</u>	<u>\$ 1,556,153</u>
Accumulated depreciation								
Balance at January 1, 2018	\$ -	\$ 20,479	\$ 164	\$ 203,543	\$ 358,908	\$ 899	\$ 95	\$ 584,088
Disposals	-	-	(21)	(7,608)	(4,184)	-	-	(11,813)
Depreciation expenses	-	11,316	484	16,695	33,933	60	16	62,504
Reclassification	-	-	-	-	-	-	-	-
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 31,795</u>	<u>\$ 627</u>	<u>\$ 212,630</u>	<u>\$ 388,657</u>	<u>\$ 959</u>	<u>\$ 111</u>	<u>\$ 634,779</u>
Balance at December 31, 2018, net	<u>\$ 288,316</u>	<u>\$ 463,509</u>	<u>\$ 1,758</u>	<u>\$ 79,295</u>	<u>\$ 84,575</u>	<u>\$ 3,838</u>	<u>\$ 83</u>	<u>\$ 921,374</u>
Cost								
Balance at January 1, 2019	\$ 288,316	\$ 495,304	\$ 2,385	\$ 291,925	\$ 473,232	\$ 4,797	\$ 194	\$ 1,556,153
Additions	677	-	1,950	15,676	89,399	1,127	30	108,859
Disposals	-	(238)	(495)	(11,104)	(9,153)	-	-	(20,990)
Reclassification	-	-	-	5,366	(5,366)	-	-	-
Balance at December 31, 2019	<u>\$ 288,993</u>	<u>\$ 495,066</u>	<u>\$ 3,840</u>	<u>\$ 301,863</u>	<u>\$ 548,112</u>	<u>\$ 5,924</u>	<u>\$ 224</u>	<u>\$ 1,644,022</u>
Accumulated depreciation								
Balance at January 1, 2019	\$ -	\$ 31,795	\$ 627	\$ 212,630	\$ 388,657	\$ 959	\$ 111	\$ 634,779
Disposals	-	-	(136)	(11,074)	(9,153)	-	-	(20,363)
Depreciation expenses	-	11,287	767	20,500	41,188	240	15	73,997
Reclassification	-	-	-	-	-	-	-	-
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 43,082</u>	<u>\$ 1,258</u>	<u>\$ 222,056</u>	<u>\$ 420,692</u>	<u>\$ 1,199</u>	<u>\$ 126</u>	<u>\$ 688,413</u>
Balance at December 31, 2019, net	<u>\$ 288,993</u>	<u>\$ 451,984</u>	<u>\$ 2,582</u>	<u>\$ 79,807</u>	<u>\$ 127,420</u>	<u>\$ 4,725</u>	<u>\$ 98</u>	<u>\$ 955,609</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	25-50 years
Office equipment	3-10 years
Transportation equipment	1-5 years
Decoration equipment	5 years
Leasehold improvement	20 years
Other equipment	5-10 years

Property, plant and equipment pledged as collateral for bank borrowings is set out in Note 25.

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Balance at January 1, 2019, as restated	\$ 551,114
Add: Additions	241,385
Loss: Depreciation expenses	<u>(223,744)</u>
	<u>\$ 568,755</u>

b. Lease liabilities - 2019

**December 31,
2019**

Carrying amounts (incremental borrowing rate is 1.39%)

Current	\$ <u>191,178</u>
Non-current	\$ <u>382,659</u>

c. Material lease-in activities and terms (the Company is lessee)

The Company leases buildings for the use of retail stores with lease term of 1 to 12 years. The Company does not have bargain purchase options to acquire the leasehold buildings at the end of the lease term. In addition, the Group is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

2019

**For the Year
Ended
December 31,
2019**

Expenses relating to short-term leases and low-value asset leases	\$ <u>1,167</u>
Total cash outflow for leases	\$ <u>231,504</u>

2018

The future minimum lease payments of non-cancellable operating lease commitments was as follows:

	December 31, 2018
Not later than 1 year	\$ 194,922
Later than 1 year and not later than 5 years	364,848
Later than 5 years	<u>13,562</u>
	<u>\$ 573,332</u>

13. INVESTMENT PROPERTIES

	Completed Investment Properties
<u>Cost</u>	
Balance at January 1, 2018	\$ 98,351
Additions	<u> -</u>
Balance at December 31, 2018	<u>\$ 98,351</u>

(Continued)

	Completed Investment Properties
<u>Accumulated depreciation</u>	
Balance at January 1, 2018	\$ 14,975
Depreciation expense	<u>1,056</u>
Balance at December 31, 2018	<u>\$ 16,031</u>
Balance at December 31, 2018, net	<u>\$ 82,320</u>
<u>Cost</u>	
Balance at January 1, 2019	\$ 98,351
Additions	<u>36</u>
Balance at December 31, 2019	<u>\$ 98,387</u>
<u>Accumulated depreciation</u>	
Balance at January 1, 2019	\$ 16,031
Depreciation expense	<u>1,060</u>
Balance at December 31, 2019	<u>\$ 17,091</u>
Balance at December 31, 2019, net	<u>\$ 81,296</u> (Concluded)

Investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	55 years
Decoration equipment	8 years
Office equipment	8 years

The management of the Company used the valuation model that market participants would use in determining the fair value, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Fair value	<u>\$ 221,091</u>	<u>\$ 244,666</u>

The investment properties pledged as collateral for bank borrowing are set out in Note 25.

14. BORROWINGS

a. Short-term borrowings

	<u>December 31</u>	
	2019	2018
<u>Unsecured borrowings</u>		
Line of credit borrowings	\$ 80,000	\$ -

The range of weighted average effective interest rates on bank loans was 1.08% per annum as of December 31, 2019.

b. Long-term borrowings

	<u>December 31</u>	
	2019	2018
<u>Secured borrowings (Note 25)</u>		
Bank loans	\$ 473,819	\$ 577,581
Less: Current portions	<u>(26,629)</u>	<u>(32,262)</u>
Long-term borrowings	<u>\$ 447,190</u>	<u>\$ 545,319</u>

- 1) The Company borrowed \$525,980 thousand from Taiwan Business Bank which was secured by land and building mortgage guarantee. The loan term is from December 23, 2015 to December 23, 2035. During the first 2 years, the Company paid interest monthly. From the third year after initial date, principal with interest will be paid monthly for 20 years. The effective interest rates were both 1.39% per annum as of December 31, 2019 and 2018.
- 2) The Company borrowed \$95,000 thousand from Taiwan Cooperative Bank which was secured by land, buildings and investment property. The loan term is from January 21, 2016 to January 20, 2021. During the first 4 years, the principal with interest of \$500 thousand is paid monthly. From the fifth year, principal and interest payment will be paid by installments for 12 months. The Company made a full repayment of the debt in advance in April 2018. The effective interest rate was 1.42% per annum as of December 31, 2018.

15. OTHER LIABILITIES

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Other payables		
Payables for salaries or bonuses	\$ 160,525	\$ 152,357
Payables for purchases of equipment	42,351	29,352
Payables for annual leave	12,881	10,154
Payables for business tax	10,729	10,057
Payables for premiums	8,833	8,070

(Continued)

	<u>December 31</u>	
	2019	2018
Payables for services	\$ 286	\$ 240
Others	<u>39,649</u>	<u>40,991</u>
	<u>\$ 275,254</u>	<u>\$ 251,221</u>
 <u>Non-current</u>		
Guarantee deposits		
Guarantee deposits for engagement	\$ 205,487	\$ 210,596
Others	<u>700</u>	<u>700</u>
	<u>\$ 206,187</u>	<u>\$ 211,296</u>
		(Concluded)

16. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plans adopted by the Company in accordance with the Labor Standards Law is operated by the government of the R.O.C. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contribute amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	<u>December 31</u>	
	2019	2018
Present value of defined benefit obligation	\$ 23,336	\$ 23,850
Fair value of plan assets	<u>(32,039)</u>	<u>(28,211)</u>
Net defined benefit assets	<u>\$ (8,703)</u>	<u>\$ (4,361)</u>

Movements in net defined benefit assets were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	<u>\$ 23,903</u>	<u>\$ (24,660)</u>	<u>\$ (757)</u>
Service cost			
Net interest expense (income)	<u>275</u>	<u>(299)</u>	<u>(24)</u>
Recognized in profit or loss	<u>275</u>	<u>(299)</u>	<u>(24)</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(665)	(665)
Actuarial loss - changes in financial assumptions	387	-	387
Actuarial loss - experience adjustments	<u>(715)</u>	-	<u>(715)</u>
Recognized in other comprehensive loss	<u>(328)</u>	<u>(665)</u>	<u>(993)</u>
Contributions from the employer	<u>-</u>	<u>(2,587)</u>	<u>(2,587)</u>
Balance at December 31, 2018	<u>23,850</u>	<u>(28,211)</u>	<u>(4,361)</u>
Service cost			
Net interest expense (income)	<u>239</u>	<u>(295)</u>	<u>(56)</u>
Recognized in profit or loss	<u>239</u>	<u>(295)</u>	<u>(56)</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(945)	(945)
Actuarial loss - changes in financial assumptions	-	-	-
Actuarial loss - experience adjustments	<u>(753)</u>	-	<u>(753)</u>
Recognized in other comprehensive loss	<u>(753)</u>	<u>(945)</u>	<u>(1,698)</u>
Contributions from the employer	<u>-</u>	<u>(2,588)</u>	<u>(2,588)</u>
Balance at December 31, 2019	<u>\$ 23,336</u>	<u>\$ (32,039)</u>	<u>\$ (8,703)</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	2019	2018
Discount rate	1%	1%
Expected rate of salary increase	2%	2%
Expected return on plan assets	1%-40%	1%-40%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	2019	2018
Discount rate		
0.25% increase	\$ (575)	\$ (640)
0.25% decrease	\$ 595	\$ 663
Expected rate of salary increase		
1% increase	\$ 2,452	\$ 2,794
1% decrease	\$ (2,192)	\$ (2,475)

The sensitivity analysis previously presented may not be representative of the actual changes in the present value of the defined benefit obligation as it is unlikely that changes in assumptions will occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	2019	2018
Expected contributions to the plans for the next year	\$ 2,588	\$ 2,588
Average duration of the defined benefit obligation	10.1 years	11.2 years

17. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	2019	2018
Number of shares authorized (in thousands)	<u>85,000</u>	<u>85,000</u>
Shares authorized	\$ 850,000	\$ 850,000
Number of shares issued and fully paid (in thousands)	<u>60,060</u>	<u>60,060</u>
Shares issued	\$ 600,599	\$ 600,599

b. Capital surplus

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
May be used to offset a deficit, distributed as <u>cash dividends, or transferred to share capital*</u>		
Treasury share transactions	\$ 502	\$ 502
<u>May not be used for any purpose</u>		
Changes in percentage of ownership interests in subsidiaries	482,773	482,759
Others	<u>182</u>	<u>182</u>
	<u>\$ 483,457</u>	<u>\$ 483,443</u>

* Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The Company's dividend policy is designed to meet present and future development projects and takes into consideration the investment environment, funding requirements, international or domestic competitive conditions while simultaneously meeting shareholders' interests. When there is no cumulative loss, the parent company shall distribute dividends at no less than 20% of the net profit. The Company shall not distribute dividends, when the net profit is less than 70% of the capital. The way to distribute dividends could be either through cash or shares, and cash dividends shall not be less than 10% of the total dividends. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 19(f).

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Parent Company should appropriate or reverse a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and is thereafter distributed.

The appropriations of earnings for 2018 and 2017 that were approved in the shareholders' meetings on June 21, 2019 and June 25, 2018, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Legal reserve	\$ 25,352	\$ 30,413		
Special reserve	93,946	62,898		
Cash dividends	228,228	228,228	\$3.8	\$3.8

The appropriation of earnings for 2019 had been proposed by the Company's board of directors on March 27, 2020. The appropriation and dividends per share were as follows:

	<u>Appropriation</u>	<u>Dividends Per</u>
	<u>of Earnings</u>	<u>Share (NT\$)</u>
Legal reserve	\$ 41,639	
Special reserve	34,884	
Cash dividends	240,240	\$4

The appropriation of earnings for 2019 are subject to resolution in the shareholders' meeting to be held on June 24, 2020.

18. REVENUE

According to IFRS 15, customer contract revenue is identified as "product sales revenue".

19. NET PROFIT (LOSS)

a. Other income

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Rental income (Note 24e)	\$ 20,606	\$ 20,598
Interest income	7,630	7,066
Others (Note 24e)	<u>27,604</u>	<u>17,567</u>
	<u>\$ 55,840</u>	<u>\$ 45,231</u>

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Gain on disposal of property, plant and equipment (Note 24f)	\$ 217	\$ 264
Net foreign exchange (loss) gain	(3)	4
Gain on disposal of associates	1,029	-
Fair value changes of financial assets		
Financial assets mandatorily classified as at FVTPL	51	-
Gain on lease modification	<u>2,006</u>	<u>-</u>
	<u>\$ 3,300</u>	<u>\$ 268</u>

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on loans	\$ 7,822	\$ 7,555
Interest on leases liabilities	8,276	-
Unwinding of discount on provisions	<u>205</u>	<u>168</u>
	<u>\$ 16,303</u>	<u>\$ 7,723</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	\$ 73,997	\$ 62,504
Investment properties	1,060	1,056
Right-of-use assets	223,744	-
Intangible assets	<u>4,872</u>	<u>3,576</u>
	<u>\$ 303,673</u>	<u>\$ 67,136</u>
 An analysis of depreciation by function		
Selling and marketing expenses	\$ 284,270	\$ 49,560
General and administrative expenses	<u>14,531</u>	<u>14,000</u>
	<u>\$ 298,801</u>	<u>\$ 63,560</u>
 An analysis of amortization by function		
Selling and marketing expenses	\$ 3,696	\$ 3,165
General and administrative expenses	<u>1,176</u>	<u>411</u>
	<u>\$ 4,872</u>	<u>\$ 3,576</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Post-employment benefits (Note 16)		
Defined contribution plans	\$ 25,396	\$ 23,699
Defined benefit plans	<u>(56)</u>	<u>(24)</u>
	25,340	23,675
Other employee benefits	<u>718,457</u>	<u>671,935</u>
Total employee benefits expense	<u>\$ 743,797</u>	<u>\$ 695,610</u>
An analysis of employee benefits expense by function		
Operating expenses	<u>\$ 743,797</u>	<u>\$ 695,610</u>

f. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 1% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and the remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, which were approved by the Company's board of directors on March 27, 2020 and March 26, 2019, respectively, are as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	2.5%	2.5%
Remuneration of directors and supervisors	1%	1%

Amount

	For the Year Ended December 31	
	2019	2018
	Cash	Cash
Employees' compensation	\$ 11,339	\$ 9,480
Remuneration of directors and supervisors	4,536	3,792

If there is a change in the amounts after the annual financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

20. INCOME TAX

a. Income tax recognized in profit or loss

Major components of tax expense recognized in profit or loss are as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current period	\$ 37,939	\$ 60,869
Adjustments for prior year	<u>1</u>	<u>-</u>
	37,940	60,869
Deferred tax		
In respect of the current period	45,182	7,338
Tax preference of repatriated offshore funds	(24,482)	-
Effect of tax rate change	<u>-</u>	<u>44,204</u>
Income tax expense recognized in profit or loss	<u>\$ 58,640</u>	<u>\$ 112,411</u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2019	2018
Income before income tax	<u>\$ 437,692</u>	<u>\$ 365,928</u>
Income tax expense calculated at the statutory rate	\$ 87,538	\$ 73,186
Tax-exempt income	(4,491)	(4,996)
Tax preference of repatriated offshore funds	(24,482)	-
Effect of tax rate changes	-	44,204
Adjustments for prior year	1	-
Others	<u>74</u>	<u>17</u>
Income tax expense recognized in profit or loss	<u>\$ 58,640</u>	<u>\$ 112,411</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

b. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit (Loss)	Recognized in Other Compre- hensive Income (Loss)	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss on inventories	\$ 4,342	\$ (193)	\$ -	\$ 4,149
Payables for annual leave	2,030	546	-	2,576
Others	<u>2,372</u>	<u>89</u>	<u>-</u>	<u>2,461</u>
	<u>\$ 8,744</u>	<u>\$ 442</u>	<u>\$ -</u>	<u>\$ 9,186</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Defined benefit obligation	\$ 3,003	\$ 528	\$ 340	\$ 3,871
Share of profit of subsidiaries and associates	<u>285,654</u>	<u>20,614</u>	<u>(16,264)</u>	<u>290,004</u>
	<u>\$ 288,657</u>	<u>\$ 21,142</u>	<u>\$ (15,924)</u>	<u>\$ 293,875</u>

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit (Loss)	Recognized in Other Compre- hensive Income (Loss)	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Unrealized loss on inventories	\$ 4,541	\$ (199)	\$ -	\$ 4,342
Payables for annual leave	1,628	402	-	2,030
Others	<u>1,978</u>	<u>394</u>	<u>-</u>	<u>2,372</u>
	<u>\$ 8,147</u>	<u>\$ 597</u>	<u>\$ -</u>	<u>\$ 8,744</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Defined benefit obligation	\$ 1,969	\$ 976	\$ 58	\$ 3,003
Share of profit of subsidiaries and associates	<u>238,280</u>	<u>51,163</u>	<u>(3,789)</u>	<u>285,654</u>
	<u>\$ 240,249</u>	<u>\$ 52,139</u>	<u>\$ (3,731)</u>	<u>\$ 288,657</u>

c. Income tax assessments

The tax returns of the Company for all years through 2017 has been assessed by the tax authorities.

21. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share are as follows:

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Earnings used in the computation of basic earnings per share	\$ <u>379,052</u>	\$ <u>253,517</u>

The weighted average number of ordinary shares outstanding (in thousand shares) is as follows:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares outstanding in computation of basic earnings per share	60,060	60,060
Effect of potentially dilutive ordinary shares:		
Employees' compensation	<u>207</u>	<u>202</u>
Weighted average number of ordinary shares outstanding in the computation of diluted earnings per share	<u>60,267</u>	<u>60,262</u>

If the Company offered to settle the compensation or bonuses paid to employees in cash or shares, the Company assumed that the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

22. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged in the foreseeable future.

The Company is not subject to any externally imposed capital requirements.

23. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The management considers that the carrying amounts of financial assets and financial liabilities are not measured at fair value approximate their fair values when their fair values cannot be measured reliably.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investment in equity instruments				
Unlisted shares - ordinary shares	\$ -	\$ -	\$ 98,438	\$ 98,438

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investment in equity instruments				
Listed shares and emerging market shares - ordinary shares	\$ 45,220	\$ -	\$ -	\$ 45,220
Unlisted shares - ordinary shares	-	-	79,286	79,286
	\$ 45,220	\$ -	\$ 79,286	\$ 124,506

There were no transfers between Levels 1 and 2 in the current and prior periods.

- 2) Reconciliation of Level 3 fair value measurements of financial instruments: None.
- 3) Valuation techniques and inputs applied for Level 2 fair value measurement: None.
- 4) Valuation techniques and inputs applied for Level 3 fair value measurement: The fair values of unlisted equity securities - ROC were determined using market approach. The market approach is used to arrive at their par values for which the recent financing activities of investees, the market transaction prices of the similar companies and market conditions are considered.

c. Categories of financial instruments

	<u>December 31</u>	
	2019	2018
<u>Financial assets</u>		
Financial assets at amortized cost (1)	\$ 93,820	\$ 159,427
Financial assets at FVTOCI		
Equity instruments	98,438	124,506
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (2)	981,961	916,952

- 1) The balances include financial assets at amortized cost, which comprise cash, notes, trade and other receivables.

- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term, long-term loans, notes, trade and other payables.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity investments, trade receivables, trade payables, and borrowings. The objective of the financial risk management is to manage the risks including market risk (including interest rate risk and other price risk), credit risk and liquidity risk related to management and operating activities. In order to reduce the financial risk, the Company identifies, assesses and evades the uncertainties to lower the potential unfavorable effect of financial performance which resulted from market changes.

The Company's financial activities are reviewed by the board of directors and audit committee in accordance with related rules and internal control systems. The Group should implement the overall financial management objective as well as observe the delegated authority in all levels and ensure that those delegated authorities carry out their duties.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in interest rates (see (a) below) and other price (see (b) below).

a) Interest rates risk

The Company was exposed to interest rate risk because of market rate changes. The impact on floating fair value of financial instrument and floating cash flows is shown below.

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period are as follows:

	December 31	
	2019	2018
Cash flow interest rate risk		
Financial assets	\$ 50,458	\$ 88,898
Financial liabilities	553,819	577,581

Sensitivity analysis

The sensitivity analyses were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments held for a quarter at the end of the reporting period. If interest rates had been 10 basis points higher and all other variables were held constant, the Company's profit or loss are as follows:

	Market Rate Change Impact	
	2019	2018
Profit or loss	\$ (503)	\$ (489)

b) Other price risk

The financial instruments is equity securities listed in R.O.C. approved by the board of directors.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$4,922 thousand and \$6,225 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk from deposits, which would cause a financial loss to the Company due to the failure of the counterparty to discharge its obligation. However, since the Company's counterparties are all reputable financial institutions, there are no significant financial-related credit risks.

3) Liquidity risk

The objective of liquidity risk management is to maintain sufficient operating cash and cash equivalents in order to ensure that the Company has financial flexibility.

As of December 31, 2019 and 2018, the Company had available unutilized short-term bank loan facilities set out in (b) below.

a) Liquidity and interest risk rate table for non-derivative financial liabilities

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2019

	Weighted Average Effective Interest Rate	On Demand or Less than 1 Year	2-3 Years	4-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities		\$ 428,143	\$ -	\$ -	\$ -
Lease liabilities		191,178	265,566	102,932	14,161
Variable interest rate liabilities	1.08%- 1.39%	<u>113,090</u>	<u>66,092</u>	<u>66,092</u>	<u>363,504</u>
		<u>\$ 732,411</u>	<u>\$ 331,658</u>	<u>\$ 169,024</u>	<u>\$ 377,665</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5+ Years	Total
Lease liabilities	<u>\$ 197,667</u>	<u>\$ 376,185</u>	<u>\$ 14,163</u>	<u>\$ 588,015</u>

December 31, 2018

	Weighted Average Effective Interest Rate	On Demand or Less than 1 Year	2-3 Years	4-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	-	\$ 407,489	\$ -	\$ -	\$ -
Variable interest rate liabilities	1.2%- 1.42%	<u>40,107</u>	<u>138,685</u>	<u>66,092</u>	<u>385,534</u>
		<u>\$ 447,596</u>	<u>\$ 138,685</u>	<u>\$ 66,092</u>	<u>\$ 385,534</u>

The amount included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank overdraft facilities, reviewed annually and payable on demand:		
Amount used	\$ 80,000	\$ -
Amount unused	<u>500,000</u>	<u>430,000</u>
	<u>\$ 580,000</u>	<u>\$ 430,000</u>
Secured bank overdraft facilities:		
Amount used	\$ 473,819	\$ 577,581
Amount unused	<u>52,161</u>	<u>143,399</u>
	<u>\$ 525,980</u>	<u>\$ 720,980</u>

24. TRANSACTIONS WITH RELATED PARTIES

The details of transactions between the Company and other related parties are disclosed below.

a. Related parties and their relationships

Related Party	Relationship with the Company
Yung Sheng Optical Co., Ltd.	Other related party - same chairman as parent company's chairman
Pao Lien Optical Co., Ltd.	Other related party - its chairman and parent company's chairman are second-degree relatives
Polylite Taiwan Co., Ltd.	Associates
Ginko International Co., Ltd.	Associates
Milanno Optical Co., Ltd.	Subsidiaries
Bao Wei Optical Co., Ltd.	Subsidiaries
Bao Xiang Optical Co., Ltd.	Subsidiaries

b. Purchases of goods

Related Party Category/Name	For the Year Ended December 31	
	2019	2018
Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 714,818	\$ 672,345

The purchases of goods to related parties had no significant difference with other non-related parties.

c. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	December 31	
		2019	2018
Other receivables	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 24,011	\$ 22,670
	Subsidiaries	674	680
		<u>\$ 24,685</u>	<u>\$ 23,350</u>

The outstanding trade receivables from related parties are unsecured.

d. Payables to related parties (excluding loans from related parties)

Line Item	Related Party Category/Name	December 31	
		2019	2018
Notes payables	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 302,307	\$ 294,632
Other payables	Other related party	2,778	2,577
		<u>\$ 305,085</u>	<u>\$ 297,209</u>

The outstanding trade payables from related parties are unsecured.

e. Other transactions with related parties

Line Item	Related Party Category/Name	December 31	
		2019	2018
1) Other expenditures	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 13,022	\$ 13,060
2) Rental income	Other related party - its chairman and parent company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd.	\$ 14,229	\$ 14,229
	Other related party - same chairman as the Company's chairman - Yung Sheng Optical Co., Ltd.	5,143	5,150
	Subsidiaries	120	120
		\$ 19,492	\$ 19,499

Rental income is negotiated by both parties and collected on a monthly basis.

The Company leases offices, branches and warehouses to Pao Lien Optical Co., Ltd. (other related party - its chairman and Company's chairman are second-degree relatives), the lease period is from January 16, 2017 to January 31, 2020. The average monthly rent is \$1,186 thousand and charge by sight check monthly.

The Company leased buildings to Yung Sheng Optical Co., Ltd. (other related party - same chairman as the Company's chairman). The lease period is from January 2018 to December 2022. The average monthly rent for the years ended December 31, 2019 and 2018 are both \$429 thousand and charge by sight check monthly.

The Company leases buildings to Bao Wei Optical Co., Ltd. (subsidiary) and Bao Xiang Optical Co., Ltd. (subsidiary). The lease period is from January 2018 to December 2019 and August 2019 to August 2022, respectively. The average monthly rent of \$5 thousand is collected by means of check.

Line Item	Related Party Category/Name	December 31	
		2019	2018
3) Other income	Subsidiary - Bao Wei Optical Co., Ltd.	\$ 7,610	\$ 7,323
	Subsidiaries	919	939
	Other related party	453	1,544
	Associates	371	-
		\$ 9,353	\$ 9,806

f. Disposal of property, plant and equipment

Related Party Name	Disposal Value		Gain/(Loss) on Disposal	
	2019	2018	2019	2018
Subsidiaries - Bao Wei Optical Co., Ltd.	\$ 479	\$ 142	\$ 120	\$ 39

g. Compensation of key management personnel

	December 31	
	2019	2018
Short-term employee benefits	\$ 12,465	\$ 9,183
Termination benefits	229	283
	<u>\$ 12,694</u>	<u>\$ 9,466</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

25. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings, the tariffs of imported raw materials guarantees or the deposits for hiring foreign workers:

	December 31	
	2019	2018
Property, plant and equipment, net	\$ 688,945	\$ 746,851
Investment properties	<u>81,296</u>	<u>82,320</u>
	<u>\$ 770,241</u>	<u>\$ 829,171</u>

26. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

As of December 31, 2019 and 2018, the Company leases part of the warehouse, office and business premises to the lessor, paid deposits of \$52,870 thousand and \$52,536 thousand, respectively, were accounted as refundable deposits.

27. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Non-monetary items			
Investments accounted for using the equity method			
USD	\$ 72,706	29.98 (USD:NTD)	\$ 2,179,719

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Non-monetary items			
Investments accounted for using the equity method			
USD	\$ 66,163	30.715 (USD:NTD)	\$ 2,032,199

28. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and information on investees:

- 1) Financing provided: None.
- 2) Endorsements/guarantees provided: None.
- 3) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities): See Table 1 below.
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 5) Acquisitions of individual real estate properties at costs of at least NT \$300 million or 20% of the paid-in capital: None.
- 6) Disposals of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: See Table 2 below.
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.

- 9) Trading in derivative instruments: None.
- 10) Information on investees: See Table 3 below.
- b. Information on investments in mainland China:
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area. See Table 4 below.
 - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None.
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purpose.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Held Company	Type and Name of Marketable Securities	Relationship with the Held Company	Financial Statement Account	December 31, 2019			Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	
Formosa Optical Technology Corporation	Ordinary shares Sunder Biomedical Tech Co., Ltd.	-	Financial assets at FVTOCI - non-current	7,463	\$ 98,438	12.44	\$ 98,438
	Tsai Hwei Tech Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,305	-	1.92	-

Note: The carrying values of financial instruments were all assessed for impairment.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details		Abnormal Transaction		Notes/Accounts (Payable) or Receivable		Note	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms		Ending Balance
Formosa Optical Technology Corporation	Pao Lien Optical Co., Ltd.	Its chairman and parent company's chairman are second-degree relatives.	Purchase	\$ 714,818	72	128 days	No significant difference	120 days	Notes payable \$ 302,307	99

FORMOSA OPTICAL TECHNOLOGY CORPORATION

NAME, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ACCOUNTED FOR FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2019			Net Income (Losses) of the Investee	Share of Profits/Losses of Investee	Note
				December 31, 2019	December 31, 2018	Shares (In Thousands)	Percentage of Ownership (%)	Carrying Value			
Formosa Optical Technology Corporation	Polytie Taiwan Corporation Limited	Taiwan	Manufacture, process, import, export and sell all kinds of glasses, frames, optical equipment, contact lenses and eye solutions	\$ 40,084	\$ 40,084	6,518	13.98	\$ 124,936	\$ 49,142	7,003	Accounted for using the equity method
	New Path International Corporation Limited	Mauritius	Investment activities	123,682	123,682	-	100.00	2,179,719	225,481	225,481	Subsidiary (Note 1)
	Milanno Optical Corporation Limited	Taiwan	Sale of optical glasses, frames and eye care solution, office machinery and equipment, and retail sale of telecom instruments	50,212	50,212	5,000	100.00	13,237	(9,954)	(9,954)	Subsidiary (Note 1)
	Bao Wei Optical Corporation Limited	Taiwan	Sale of optical glasses, frames and eye care solution	100,000	100,000	10,000	100.00	173,540	28,894	28,894	Subsidiary (Note 1)
	Bao Xiang Optical Corporation Limited	Taiwan	Sale of optical glasses, frames and eye care solution	42,000	42,000	4,200	70.00	20,903	(7,132)	(4,992)	Subsidiary (Note 1)
New Path International Corporation Limited	Ginko International Corporation Limited	Cayman	Investment activities	US\$ 2,089	US\$ 2,089	17,003	18.39	US\$ 65,980	1,199,556	N/A	Accounted for using the equity method
Ginko International Co., Ltd.	Prosper Link International Limited (BVI)	British Virgin Islands	Investment activities	US\$ 2,089	US\$ 2,089	-	100.00	13,544,520	764,868	N/A	Subsidiary of joint venture
	Yung Sheng Optical Corporation Limited	Taiwan	Merchandise and sale of contact lenses and care solutions.	1,560,000	1,560,000	156,000	100.00	3,525,771	382,555	N/A	Subsidiary of joint venture
Prosper Link International Corporation Limited (BVI)	Hatchang International Limited.	Hong Kong	Investment activities	US\$ 2,089	US\$ 2,089	-	100.00	13,754,056	759,998	N/A	Subsidiary of joint venture
Hatchang Contact Lens Corporation Limited	Gain Bless Management Ltd.	British Virgin Islands	Investment activities	US\$ 1,150	US\$ 1,150	1,150	100.00	16,014	(998)	N/A	Subsidiary of joint venture
	Gain Bless Management Ltd.	Malaysia	Sale of contact lenses and care solutions	US\$ 971	US\$ 971	1,750	70.00	10,910	(955)	N/A	Subsidiary of joint venture
Yung Sheng Optical Corporation Limited	Master Harvest Global Ltd.	Anguilla	Investment activities	US\$ 10,000	US\$ 5,000	10,000	100.00	194,285	(28,606)	N/A	Subsidiary of joint venture
Master Harvest Global Ltd.	Eishou Optical Co. Ltd.	Japan	Sale of contact lenses and care solutions	JPY 63,700	JPY 63,700	6,300	70.00	(34,579)	838	N/A	Subsidiary of joint venture
	Unit-Beauty Co., Ltd.	Japan	Sale of contact lenses and care solutions	JPY 290,000	JPY 90,000	29,000	100.00	33,518	(27,673)	N/A	Subsidiary of joint venture

Note 1: All amounts have been eliminated upon consolidation.

Note 2: Refer to Table 4 for information on investments in mainland China.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

FORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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, 2019	Investment of Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits (Losses) (Note 2)	Carrying Amount as of December 31, 2019 (Note 3)	Accumulated Inward Remittances of Earnings as of December 31, 2019
					Outflow	Inflow						
Haichang Contact Lens Corporation Limited	Merchandise and sale of contact lenses and care solution	\$ 1,688,444 (US\$ 56,319)	Note 1	\$ 62,628 (US\$ 2,089)	\$ -	\$ -	\$ 62,628 (US\$ 2,089)	\$ 504,210 (RMB 16,311)	18.39	\$ 92,724	\$ 9,273,080	\$ 171,126 (US\$ 5,708)
Jiangsu Horizon Contact Lens Corporation Limited	Merchandise and sale of contact lenses and care solution	64,575 (RMB 15,000)	Note 1	3,927 (US\$ 131)	-	-	3,927 (US\$ 131)	400,607 (RMB 12,960)	18.39	73,672	4,193,277	
Heilongjiang Province Dingtai Pharmaceutical Corporation Limited	Manufacture tablets, capsules, powders and granules	77,632 (RMB 18,033)	Note 1	6,176 (US\$ 206)	-	-	6,176 (US\$ 206)	(54,636) (RMB 1,767)	9.09	-	(1,798) (US\$ 60)	
Heilongjiang Haichang Biological Technology Corporation Limited	General business items: Manufacture health care products, provide technology consultation, technology services. Licensed business items: R&D and manufacture bottled water, water sprays, medical adhesive tapes, artificial skins, disinfectants, preservatives, bio-antibacterial agents, whey protein and other medical materials and products (with relevant valid licenses)	314,790 (US\$ 10,500)	Note 1	67,575 (US\$ 2,254)	-	-	67,575 (US\$ 2,254)	(453,301) (RMB 14,664)	11.36	-	(11,641) (US\$ 388)	

Accumulated Investments in Mainland China as of December 31, 2019	Investment Amounts Authorized by the Investment Commission, MOEA	Upper Limit on Investment
\$ 140,306 (US\$ 4,680)	\$ 469,817 (US\$ 15,671) (Note-4)	\$ 1,515,976 (Note-5)

Note 1: Indirect investment in mainland China through holding companies

Note 2: The financial statements that were used as basis for calculating the investments were all not reviewed by the independent auditors.

Note 3: The investment is transferred to the subsidiary which was held 100% by the Group.

Note 4: Investments approved by the Ministry of Economic Affairs, R.O.C. are as follows:

Name of Investee	Order No.	Approved Amounts
Haichang Contact Lens Corporation Limited	093009671	US\$ 1,789
Haichang Contact Lens Corporation Limited	093036370	US\$ 1,130
Haichang Contact Lens Corporation Limited	09500279650	US\$ 2,349
Haichang Contact Lens Corporation Limited	09600265450	US\$ 1,128
Haichang Contact Lens Corporation Limited	09700502730	US\$ 432
Haichang Contact Lens Corporation Limited	10200045160	US\$ 1,134
Haichang Contact Lens Corporation Limited	10200107280	US\$ 941
Haichang Contact Lens Corporation Limited	10200284980	US\$ 752
Haichang Contact Lens Corporation Limited	10200366260	US\$ 1,313
Haichang Contact Lens Corporation Limited	10300012480	US\$ 738
Haichang Contact Lens Corporation Limited	10300646660	US\$ 368
Haichang Contact Lens Corporation Limited	10300249790	US\$ 734
Jiangsu Horizon Contact Lens Corporation Limited	09500346290	US\$ 136
Heilongjiang Province Dingtai Pharmaceutical Corporation Limited	09500314110	US\$ 102
Heilongjiang Haichang Biological Technology Corporation Limited	09600019060	US\$ 171
Heilongjiang Haichang Biological Technology Corporation Limited	09700127800	US\$ 341
Heilongjiang Haichang Biological Technology Corporation Limited	09700496830	US\$ 1,651
Heilongjiang Haichang Biological Technology Corporation Limited	09800229750	US\$ 262
		<u>US\$ 15,671</u>

Note 5: The parent company's upper limit on investments to China (calculated based on the higher of 60% of Sillitech Technology Corporation's net worth or consolidated net worth of \$80 million, plus accumulated inward remittance of share capital or earnings from subsidiaries in mainland China: \$2,526,627 (net worth) x 60% = \$1,515,976.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

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FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENT OF CASH

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Remark	Amount
Cash on hand		\$ 10,815
Cash in banks		
Checking accounts and demand deposits	Note	<u>50,511</u>
		<u>\$ 61,326</u>

Note: Includes US\$4 thousand at \$29.98.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENT OF INVENTORIES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Client Name	Amount		Remark
	Cost	Market	
Merchandise	\$ 419,599	<u>\$ 674,480</u>	Note
Less: Allowance for inventory valuation losses	<u>(20,745)</u>		
	<u>\$ 398,854</u>		

Note: The amount is based on the net realizable value of inventory.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance at January 1, 2019		Additions in Investment		Decrease in Investment		Increase (Decrease) in Using the Equity Method	Balance at December 31, 2019		Market Value or Net Assets Value	Collateral	
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount		Shares (In Thousands)	%			Amount
PolyLite Taiwan Ltd. (Note 1)	6,645	\$ 135,072	-	\$ 212	127	\$ (17,351)	\$ 7,003	6,518	13.98	\$ 124,936	\$ 176,641	N/A
New Path International Ltd. (Note 2)	-	2,032,199	-	3,038	-	(80,999)	225,481	-	100.00	2,179,719	2,179,719	N/A
Milanno Optical Ltd. (Note 3)	5,000	23,456	-	-	-	(265)	(9,954)	5,000	100.00	13,237	13,237	N/A
Bao Wei Optical Ltd. (Note 4)	10,000	143,404	-	32,433	-	(31,191)	28,894	10,000	100.00	173,540	173,540	N/A
Bao Xiang Optical Ltd.	4,200	25,895	-	-	-	-	(4,992)	4,200	70.00	20,903	20,903	N/A
		<u>\$ 2,360,026</u>		<u>\$ 35,683</u>		<u>\$ (129,806)</u>	<u>\$ 246,432</u>			<u>\$ 2,512,335</u>	<u>\$ 2,564,040</u>	

Note 1: The increase in capital surplus was \$14 thousand and investment based on the proportion of unrealized (losses) gains on financial assets at FVTOCI was \$198 thousand. The decrease in investment based on issued cash dividend was \$13,290 thousand, investment based on the proportion of the difference of effects of equity was \$1,245 thousand, disposal of associates of 127 thousand shares was \$2,456 thousand, investment based on the proportion of net defined benefit was \$40 thousand and the foreign currency exchange difference was \$320 thousand.

Note 2: The decrease in investment based on the proportion of unrealized (losses) gains on financial assets at FVTOCI was \$3,038 thousand, and the foreign currency exchange difference was \$80,999 thousand.

Note 3: The adjustment arising from initial application of IFRS 16 was \$265 thousand.

Note 4: The increase in investment based on the proportion of unrealized (losses) gains on financial assets at FVTOCI was \$32,433 thousand. The decrease in investment based on issued cash dividend was \$29,580 thousand and the adjustment arising from initial application of IFRS 16 was \$1,611 thousand.

FORMOSA OPTICAL TECHNOLOGY CORPORATION

STATEMENT OF NET REVENUE

FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Shipments (In Thousand Pieces)	Amount
Contact lens	3,571	\$ 890,525
Lenses	466	807,550
Spectacle frames	236	558,998
Eye drops	438	54,058
Others	72	<u>21,112</u>
		2,332,243
Less: Sales return		<u>(9,929)</u>
		<u>\$ 2,322,314</u>

FORMOSA OPTICAL TECHNOLOGY CORPORATION

**STATEMENT OF COST OF GOOD SOLD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Amount
Inventory balance at beginning of year	\$ 385,844
Add: Purchases, net	986,253
Less: Inventory balance at end of year	419,599
Others	<u>3,777</u>
	<u>\$ 948,721</u>

FORMOSA OPTICAL TECHNOLOGY CORPORATION

**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Selling and Marketing Expenses	General and Administrative Expenses	Total
Payroll and related expenses	\$ 589,355	\$ 51,136	\$ 640,491
Depreciation expenses	284,270	14,531	298,801
Others (not exceeding 5%)	<u>252,756</u>	<u>33,122</u>	<u>285,878</u>
	<u>\$ 1,126,381</u>	<u>\$ 98,789</u>	<u>\$ 1,225,170</u>

FORMOSA OPTICAL TECHNOLOGY CORPORATION

**STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

	2019	2018
Labor cost		
Salary	\$ 640,491	\$ 600,615
Labor and health insurance	49,124	44,809
Pension	25,340	23,675
Food stipend	22,873	21,480
Board compensation	4,536	3,792
Others	<u>1,433</u>	<u>1,239</u>
	<u>\$ 743,797</u>	<u>\$ 695,610</u>
Depreciation	\$ 298,801	\$ 63,560
Amortization	4,872	3,576

Note 1: As of December 31, 2019 and 2018, the Company had 884 and 857 employees, respectively. Among them 4 directors did not serve concurrently as employees for both years.

Note 2: a. Average labor cost for the year ended December 31, 2019 and 2018 was \$845 thousand and \$817 thousand, respectively.

b. Average salary and bonus for the year ended December 31, 2019 and 2018 were \$728 thousand and \$706 thousand, respectively.

c. The change in average salary was 3%.