

# **Formosa Optical Technology Corporation**

**Financial Statements for the  
Years Ended December 31, 2020 and 2019 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020. 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, 2020, the key audit matters identified in the Company's financial statements were as follows:

#### **Allowance for Inventory Loss**

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

Our audit procedures that performed in respect of testing the net realizable value of inventories were as follows:

1. We obtained an understanding of the Company's business and industry and the design and implementation of controls over normal and slow moving inventories, and evaluated the effectiveness of relevant internal controls.
2. We tested the ending balance of the carrying amount of inventory through sampling and recalculating the latest purchases and sales records, and verified the calculation of inventory based on the lower of cost, and tested the accuracy of the net realizable value of inventory at the end of the period.
3. We obtained the inventory aging report, participated in the year-end inventory inspection, and evaluated the reasonableness of the estimated loss allowance for obsolete and damaged inventories.

Refer to Notes 4, 5 and 10 for accounting policies, critical accounting judgements, estimates, and assumption uncertainties related to impairment loss of inventory.

#### Allowance for Sales Returns and Discounts from Equity-Method Investments

Among the investments accounted for using the equity method, portion of the revenue is based on contractual agreements, in which sales returns and discounts to customers are recognized as a deduction in the share of profit of associates accounted for using the equity method. Since the accuracy of revenue recognized from the share of profit of associates accounted for using the equity method was significant to the financial statements as a whole, the recognition of revenue from equity-method investments was identified as one of the key audit matters.

Our main audit procedures performed in respect of the recognition of sales returns and discounts were as follows:

1. We communicated with the audit team to obtain an understanding and assessed the reasonableness of the investees' revenue recognition procedures, and evaluated the effectiveness of relevant controls over sales and collection cycle.
2. We also performed the test of controls for relevant sales contracts and documents, and conducted analytical procedures for major changes in customer's transactions and revenue by product.
3. We performed sampling tests on sales transactions before and after 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.

#### **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 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, 2020 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 audits resulting in this independent auditors' report are Tsai-Cheng Tsai and Yung-Hsiang Chao.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 26, 2021

#### 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, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

| ASSETS                                                                                       | 2020                |            | 2019                |            |
|----------------------------------------------------------------------------------------------|---------------------|------------|---------------------|------------|
|                                                                                              | Amount              | %          | Amount              | %          |
| <b>CURRENT ASSETS</b>                                                                        |                     |            |                     |            |
| Cash (Note 6)                                                                                | \$ 72,360           | 2          | \$ 61,326           | 1          |
| Financial assets at fair value through other comprehensive income - current (Notes 7 and 26) | 47,051              | 1          | -                   | -          |
| Financial assets at amortized cost-current (Note 8)                                          | 19,000              | -          | -                   | -          |
| Trade receivables, net (Note 9)                                                              | 6,174               | -          | 7,177               | -          |
| Other receivables (Note 25)                                                                  | 30,757              | 1          | 25,317              | 1          |
| Inventories, net (Notes 5 and 10)                                                            | 410,201             | 8          | 398,854             | 8          |
| Prepayments                                                                                  | 17,280              | -          | 21,513              | 1          |
| Total current assets                                                                         | 602,823             | 12         | 514,187             | 11         |
| <b>NON-CURRENT ASSETS</b>                                                                    |                     |            |                     |            |
| Financial assets at fair value through other comprehensive income - non-current (Note 7)     | 91,457              | 2          | 98,438              | 2          |
| Financial assets at amortized cost - non-current (Note 8)                                    | 158,519             | 3          | -                   | -          |
| Investments accounted for using the equity method (Notes 5 and 11)                           | 2,504,565           | 49         | 2,512,335           | 52         |
| Property, plant and equipment, net (Notes 12, 25 and 26)                                     | 1,033,967           | 20         | 955,609             | 20         |
| Right-of-use assets (Note 13)                                                                | 571,206             | 11         | 568,755             | 12         |
| Investment properties, net (Notes 14 and 26)                                                 | 80,333              | 2          | 81,296              | 2          |
| Intangible assets, net                                                                       | 16,613              | -          | 14,031              | -          |
| Deferred tax assets (Note 21)                                                                | 10,233              | -          | 9,186               | -          |
| Refundable deposits (Note 13)                                                                | 53,922              | 1          | 52,870              | 1          |
| Net defined benefit assets - non-current (Note 17)                                           | 12,399              | -          | 8,703               | -          |
| Total non-current assets                                                                     | 4,533,214           | 88         | 4,301,223           | 89         |
| <b>TOTAL</b>                                                                                 | <b>\$ 5,136,037</b> | <b>100</b> | <b>\$ 4,815,410</b> | <b>100</b> |
| <b>LIABILITIES AND EQUITY</b>                                                                |                     |            |                     |            |
| <b>CURRENT LIABILITIES</b>                                                                   |                     |            |                     |            |
| Short-term borrowings (Note 15)                                                              | \$ 313,500          | 6          | \$ 80,000           | 2          |
| Notes payable to unrelated parties                                                           | 15,326              | -          | 27,951              | 1          |
| Notes payable to related parties (Note 25)                                                   | 288,153             | 6          | 302,307             | 6          |
| Trade payables to unrelated parties                                                          | 59,175              | 1          | 41,433              | 1          |
| Other payables (Notes 16 and 25)                                                             | 261,103             | 5          | 249,509             | 5          |
| Current tax liabilities (Note 21)                                                            | 9,405               | -          | 9,200               | -          |
| Lease liabilities - current (Note 13)                                                        | 180,685             | 4          | 191,178             | 4          |
| Current portion of long-term borrowings (Note 15)                                            | 27,546              | 1          | 26,629              | 1          |
| Other current liabilities                                                                    | 26,295              | -          | 23,550              | -          |
| Total current liabilities                                                                    | 1,181,188           | 23         | 951,757             | 20         |
| <b>NON-CURRENT LIABILITIES</b>                                                               |                     |            |                     |            |
| Long-term borrowings (Note 15)                                                               | 419,198             | 8          | 447,190             | 10         |
| Provisions - non-current                                                                     | 8,267               | -          | 7,115               | -          |
| Deferred tax liabilities (Note 21)                                                           | 319,777             | 6          | 293,875             | 6          |
| Lease liabilities - non-current (Note 13)                                                    | 394,299             | 8          | 382,659             | 8          |
| Guarantee deposits received (Note 16)                                                        | 212,664             | 4          | 206,187             | 4          |
| Total non-current liabilities                                                                | 1,354,205           | 26         | 1,337,026           | 28         |
| Total liabilities                                                                            | 2,535,393           | 49         | 2,288,783           | 48         |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 18)</b>                                |                     |            |                     |            |
| Ordinary shares                                                                              | 600,599             | 12         | 600,599             | 12         |
| Capital surplus                                                                              | 483,469             | 9          | 483,457             | 10         |
| Retained earnings                                                                            |                     |            |                     |            |
| Legal reserve                                                                                | 423,671             | 8          | 382,032             | 8          |
| Special reserve                                                                              | 242,569             | 5          | 207,685             | 4          |
| Unappropriated earnings                                                                      | 1,105,002           | 22         | 1,095,423           | 23         |
| Total retained earnings                                                                      | 1,771,242           | 35         | 1,685,140           | 35         |
| Other equity                                                                                 | (254,666)           | (5)        | (242,569)           | (5)        |
| Total equity                                                                                 | 2,600,644           | 51         | 2,526,627           | 52         |
| <b>TOTAL</b>                                                                                 | <b>\$ 5,136,037</b> | <b>100</b> | <b>\$ 4,815,410</b> | <b>100</b> |

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, 2020 AND 2019

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|                                                                                                              | 2020               |             | 2019               |             |
|--------------------------------------------------------------------------------------------------------------|--------------------|-------------|--------------------|-------------|
|                                                                                                              | Amount             | %           | Amount             | %           |
| OPERATING REVENUE (Note 19)                                                                                  | \$ 2,234,017       | 100         | \$ 2,322,314       | 100         |
| COST OF GOODS SOLD (Notes 10 and 25)                                                                         | <u>(872,437)</u>   | <u>(39)</u> | <u>(948,721)</u>   | <u>(41)</u> |
| GROSS PROFIT                                                                                                 | <u>1,361,580</u>   | <u>61</u>   | <u>1,373,593</u>   | <u>59</u>   |
| OPERATING EXPENSES (Notes 20 and 25)                                                                         |                    |             |                    |             |
| Selling and marketing expenses                                                                               | (1,124,361)        | (50)        | (1,126,381)        | (49)        |
| General and administrative expenses                                                                          | <u>(110,573)</u>   | <u>(5)</u>  | <u>(98,789)</u>    | <u>(4)</u>  |
| Total operating expenses                                                                                     | <u>(1,234,934)</u> | <u>(55)</u> | <u>(1,225,170)</u> | <u>(53)</u> |
| PROFIT FROM OPERATION INCOME                                                                                 | <u>126,646</u>     | <u>6</u>    | <u>148,423</u>     | <u>6</u>    |
| NON-OPERATING INCOME AND EXPENSES                                                                            |                    |             |                    |             |
| Interest income (Note 20)                                                                                    | 11,038             | 1           | 7,630              | 1           |
| Other income (Notes 20 and 25)                                                                               | 58,276             | 3           | 48,210             | 2           |
| Other gains and losses (Notes 20 and 25)                                                                     | 7,770              | -           | 3,300              | -           |
| Finance costs (Note 20)                                                                                      | (17,236)           | (1)         | (16,303)           | (1)         |
| Share of profit of associates                                                                                | <u>184,747</u>     | <u>8</u>    | <u>246,432</u>     | <u>11</u>   |
| Total non-operating income and expenses                                                                      | <u>244,595</u>     | <u>11</u>   | <u>289,269</u>     | <u>13</u>   |
| PROFIT BEFORE INCOME TAX                                                                                     | 371,241            | 17          | 437,692            | 19          |
| INCOME TAX EXPENSE (Note 21)                                                                                 | <u>(62,920)</u>    | <u>(3)</u>  | <u>(58,640)</u>    | <u>(3)</u>  |
| NET PROFIT FOR THE YEAR                                                                                      | <u>308,321</u>     | <u>14</u>   | <u>379,052</u>     | <u>16</u>   |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                                            |                    |             |                    |             |
| Items that will not be reclassified subsequently to profit or loss:                                          |                    |             |                    |             |
| Remeasurement of defined benefit plans                                                                       | 2,182              | -           | 1,698              | -           |
| Unrealized (loss) gain on investments in equity instruments at fair value through other comprehensive income | (11,382)           | (1)         | 55,531             | 3           |
| Share of the other comprehensive income (loss) of associates accounted for using the equity method           | 151                | -           | (40)               | -           |
| Income tax benefit relating to items that will not be reclassified subsequently to profit or loss            | <u>(436)</u>       | <u>-</u>    | <u>(340)</u>       | <u>-</u>    |
|                                                                                                              | <u>(9,485)</u>     | <u>(1)</u>  | <u>56,849</u>      | <u>3</u>    |

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# FORMOSA OPTICAL TECHNOLOGY CORPORATION

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|                                                                                       | <u>2020</u>       |           | <u>2019</u>       |            |
|---------------------------------------------------------------------------------------|-------------------|-----------|-------------------|------------|
|                                                                                       | <u>Amount</u>     | <u>%</u>  | <u>Amount</u>     | <u>%</u>   |
| Items that may be reclassified subsequently to profit or loss:                        |                   |           |                   |            |
| Exchange differences on translation of the financial statements of foreign operations | \$ (2,443)        | -         | \$ (151,812)      | (7)        |
| Share of other comprehensive income of associates for using the equity method         | 21,644            | 1         | 70,691            | 3          |
| Income tax relating to items that may be reclassified subsequently to profit or loss  | <u>(3,792)</u>    | <u>-</u>  | <u>16,264</u>     | <u>1</u>   |
|                                                                                       | <u>15,409</u>     | <u>1</u>  | <u>(64,857)</u>   | <u>(3)</u> |
| Other comprehensive income (loss) for the year, net of income tax                     | <u>5,924</u>      | <u>-</u>  | <u>(8,008)</u>    | <u>-</u>   |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR                                               | <u>\$ 314,245</u> | <u>14</u> | <u>\$ 371,044</u> | <u>16</u>  |
| EARNINGS PER SHARE (Note 22)                                                          |                   |           |                   |            |
| Basic                                                                                 | <u>\$ 5.13</u>    |           | <u>\$ 6.31</u>    |            |
| Diluted                                                                               | <u>\$ 5.12</u>    |           | <u>\$ 6.29</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, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

|                                                                                                        | Issue of share Capital |                   | Capital Surplus   | Retained Earnings |                   |                         | Other Equity                                                                          |                                                                                             | Total               |
|--------------------------------------------------------------------------------------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|---------------------|
|                                                                                                        | Shares (In Thousands)  | Amount            |                   | Legal Reserve     | Special Reserve   | Unappropriated Earnings | Exchange Differences on Translation of the Financial Statements of Foreign Operations | Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income |                     |
| BALANCE AT JANUARY 1, 2019                                                                             | 60,060                 | \$ 600,599        | \$ 483,443        | \$ 356,680        | \$ 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           | 356,680           | 113,739           | 1,019,279               | (85,518)                                                                              | (122,167)                                                                                   | 2,366,055           |
| Appropriation of the 2018 earnings                                                                     |                        |                   |                   |                   |                   |                         |                                                                                       |                                                                                             |                     |
| Legal reserve                                                                                          | -                      | -                 | -                 | 25,352            | -                 | (25,352)                | -                                                                                     | -                                                                                           | -                   |
| Special reserve                                                                                        | -                      | -                 | -                 | -                 | 93,946            | (93,946)                | -                                                                                     | -                                                                                           | -                   |
| Cash dividends                                                                                         | -                      | -                 | -                 | -                 | -                 | (228,228)               | -                                                                                     | -                                                                                           | (228,228)           |
| 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 (loss) for the year ended December 31, 2019, net of income tax              | -                      | -                 | -                 | -                 | -                 | 1,318                   | (65,055)                                                                              | 55,729                                                                                      | (8,008)             |
| Total comprehensive income (loss) for the year ended December 31, 2019                                 | -                      | -                 | -                 | -                 | -                 | 380,370                 | (65,055)                                                                              | 55,729                                                                                      | 371,044             |
| Disposal of investments in equity instruments designated fair value through other comprehensive income | -                      | -                 | -                 | -                 | -                 | 25,558                  | -                                                                                     | (25,558)                                                                                    | -                   |
| BALANCE AT DECEMBER 31, 2019                                                                           | 60,060                 | 600,599           | 483,457           | 382,032           | 207,685           | 1,095,423               | (150,573)                                                                             | (91,996)                                                                                    | 2,526,627           |
| Appropriation of the 2019 earnings                                                                     |                        |                   |                   |                   |                   |                         |                                                                                       |                                                                                             |                     |
| Legal reserve                                                                                          | -                      | -                 | -                 | 41,639            | -                 | (41,639)                | -                                                                                     | -                                                                                           | -                   |
| Special reserve                                                                                        | -                      | -                 | -                 | -                 | 34,884            | (34,884)                | -                                                                                     | -                                                                                           | -                   |
| Cash dividends                                                                                         | -                      | -                 | -                 | -                 | -                 | (240,240)               | -                                                                                     | -                                                                                           | (240,240)           |
| Other changes in capital surplus                                                                       |                        |                   |                   |                   |                   |                         |                                                                                       |                                                                                             |                     |
| Changes in capital surplus from investments in associates using the equity method                      | -                      | -                 | 12                | -                 | -                 | -                       | -                                                                                     | -                                                                                           | 12                  |
| Net profit for the year ended December 31, 2020                                                        | -                      | -                 | -                 | -                 | -                 | 308,321                 | -                                                                                     | -                                                                                           | 308,321             |
| Other comprehensive income (loss) for the year ended December 31, 2020, net of income tax              | -                      | -                 | -                 | -                 | -                 | 1,897                   | 15,169                                                                                | (11,142)                                                                                    | 5,924               |
| Total comprehensive income (loss) for the year ended December 31, 2020                                 | -                      | -                 | -                 | -                 | -                 | 310,218                 | 15,169                                                                                | (11,142)                                                                                    | 314,245             |
| Disposal of investments in equity instruments designated fair value through other comprehensive income | -                      | -                 | -                 | -                 | -                 | 16,124                  | -                                                                                     | (16,124)                                                                                    | -                   |
| BALANCE AT DECEMBER 31, 2020                                                                           | <u>60,060</u>          | <u>\$ 600,599</u> | <u>\$ 483,469</u> | <u>\$ 423,671</u> | <u>\$ 242,569</u> | <u>\$ 1,105,002</u>     | <u>\$ (135,404)</u>                                                                   | <u>\$ (119,262)</u>                                                                         | <u>\$ 2,600,644</u> |

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, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

|                                                                                 | 2020           | 2019           |
|---------------------------------------------------------------------------------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |                |                |
| Income before income tax                                                        | \$ 371,241     | \$ 437,692     |
| Adjustments for:                                                                |                |                |
| Depreciation expense                                                            | 312,636        | 298,801        |
| Amortization expense                                                            | 8,559          | 4,872          |
| Finance costs                                                                   | 17,236         | 16,303         |
| Share of profit of subsidiaries and associates                                  | (184,747)      | (246,432)      |
| Interest income                                                                 | (11,038)       | (7,630)        |
| Net loss on disposal of inventories                                             | 5,850          | 7,741          |
| Net gain on disposal of property, plant and equipment                           | (858)          | (217)          |
| Gain on disposal of investments accounted for using equity the method           | (1,784)        | (1,029)        |
| Net gain on fair value change of financial assets as at FVTPL                   | (10,000)       | (51)           |
| Gain on lease modification                                                      | (3,926)        | (2,006)        |
| Changes in operating assets and liabilities                                     |                |                |
| Notes receivable                                                                | -              | 16             |
| Trade receivables                                                               | 1,003          | 11,022         |
| Other receivables                                                               | (5,440)        | (1,872)        |
| Inventories                                                                     | (17,197)       | (42,462)       |
| Prepayments                                                                     | 4,233          | 944            |
| Net defined benefit liabilities - non-current                                   | (1,514)        | (2,645)        |
| Notes payable                                                                   | (26,779)       | 18,821         |
| Trade payables                                                                  | 17,742         | 4,730          |
| Other payables                                                                  | 11,654         | 9,701          |
| Other current liabilities                                                       | 2,745          | (2,607)        |
| Cash generated from operations                                                  | 489,616        | 503,692        |
| Interest received                                                               | 11,038         | 7,630          |
| Dividends received                                                              | 245,519        | 42,870         |
| Interest paid                                                                   | (16,979)       | (16,095)       |
| Income tax paid                                                                 | (42,088)       | (67,068)       |
| Net cash generated from operating activities                                    | <u>687,106</u> | <u>471,029</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                     |                |                |
| Purchase of financial assets at fair value through other comprehensive income   | (49,996)       | (34,280)       |
| Proceeds from financial assets at fair value through other comprehensive income | -              | 99,394         |
| Purchase of financial assets at amortized cost                                  | (177,519)      | -              |
| Purchase of financial assets at fair value through profit or loss               | (112,990)      | (125,000)      |
| Proceeds from sale of financial assets at fair value through profit or loss     | 122,990        | 125,051        |
| Proceeds from sale of investments accounted for using the equity                | 6,690          | 3,485          |
| Acquisition of investments accounted for using the equity method                | (40,000)       | -              |
| Payments for property, plant and equipment                                      | (167,078)      | (107,495)      |

(Continued)

# FORMOSA OPTICAL TECHNOLOGY CORPORATION

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

|                                                         | 2020             | 2019             |
|---------------------------------------------------------|------------------|------------------|
| Proceeds from disposal of property, plant and equipment | \$ 3,247         | \$ 607           |
| Increase in refundable deposits                         | (1,052)          | (334)            |
| Payments for intangible assets                          | (11,141)         | (9,702)          |
| Payments for investment properties                      | <u>-</u>         | <u>(36)</u>      |
| Net cash used in investing activities                   | <u>(426,849)</u> | <u>(48,310)</u>  |
| CASH FLOWS FROM FINANCING ACTIVITIES                    |                  |                  |
| Proceeds from short-term borrowings                     | 233,500          | 80,000           |
| Repayments of long-term borrowings                      | (27,075)         | (103,762)        |
| Repayment of the principal portion of lease liabilities | (221,885)        | (222,061)        |
| Proceeds from (refund of) guarantee deposits received   | 6,477            | (5,109)          |
| Cash dividends                                          | <u>(240,240)</u> | <u>(228,228)</u> |
| Net cash used in financing activities                   | <u>(249,223)</u> | <u>(479,160)</u> |
| NET INCREASE (DECREASE) IN CASH                         | 11,034           | (56,441)         |
| CASH AT THE BEGINNING OF THE YEAR                       | <u>61,326</u>    | <u>117,767</u>   |
| CASH AT THE END OF THE YEAR                             | <u>\$ 72,360</u> | <u>\$ 61,326</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, 2020 AND 2019**

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

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### **1. GENERAL INFORMATION**

Formosa Optical Technology Corporation (the “Company”) was established in November 1989, and is mainly engaged in eyewear business. 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 for issue on March 24, 2021.

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

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

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Company’s accounting policies:

- 1) Amendments to IAS 1 and IAS 8 “Definition of Material”

The Company adopted the amendments starting from January 1, 2020. The threshold of materiality that could influence users has been changed to “could reasonably be expected to influence”. Accordingly, disclosures in the financial statements do not include immaterial information that may obscure material information.

- 2) Amendment to IFRS 16 “Covid-19-Related Rent Concessions”

The Company elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessor as a direct consequence of the COVID-19. The related accounting policies are stated in Note 4. Prior to the application of the amendment, the Company shall determine whether or not the abovementioned rent concessions need to be accounted for as lease modifications.

The Company applied the amendment from January 1, 2020. Because the abovementioned rent concessions affect only in 2020, retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

- b. The IFRSs endorsed by the FSC for application starting from 2021

| <b>New IFRSs</b>                                                                                    | <b>Effective Date<br/>Announced by IASB</b>         |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”                    | Effective immediately upon promulgation by the IASB |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform - Phase 2” | January 1, 2021                                     |

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

| <b>New IFRSs</b>                                                                                                         | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| “Annual Improvements to IFRS Standards 2018-2020”                                                                        | January 1, 2022 (Note 2)                             |
| Amendments to IFRS 3 “Reference to the Conceptual Framework”                                                             | January 1, 2022 (Note 3)                             |
| 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, 2023                                      |
| Amendments to IFRS 17                                                                                                    | January 1, 2023                                      |
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”                                            | January 1, 2023                                      |
| Amendments to IAS 1 “Disclosure of Accounting Policies”                                                                  | January 1, 2023 (Note 6)                             |
| Amendments to IAS 8 “Definition of Accounting Estimates”                                                                 | January 1, 2023 (Note 7)                             |
| Amendments to IAS 16 “Property, Plant and Equipment - Proceeds before Intended Use”                                      | January 1, 2022 (Note 4)                             |
| Amendments to IAS 37 “Onerous Contracts - Cost of Fulfilling a Contract”                                                 | January 1, 2022 (Note 5)                             |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Note 2: The amendments to IFRS 9 will be applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 “Agriculture” will be applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 “First-time Adoptions of IFRSs” will be applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.

Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.

1) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Company shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Company will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Company must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Company’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Company’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32 “Financial Instruments: Presentation”, the aforementioned terms would not affect the classification of the liability.

2) Amendments to IAS 1 “Disclosure of Accounting Policies”

The amendments specify that the Company should refer to the definition of material to determine its material accounting policy information to be disclosed. Accounting policy information is material if it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments also clarify that:

- Accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed;
- The Company may consider the accounting policy information as material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial; and
- Not all accounting policy information relating to material transactions, other events or conditions is itself material.

The amendments also illustrate that accounting policy information is likely to be considered as material to the financial statements if that information relates to material transactions, other events or conditions and:

- a) The Company changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements;
- b) The Company chose the accounting policy from options permitted by the standards;
- c) The accounting policy was developed in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” in the absence of an IFRS that specifically applies;

- d) The accounting policy relates to an area for which the Company is required to make significant judgements or assumptions in applying an accounting policy, and the Company discloses those judgements or assumptions; or
- e) The accounting is complex and users of the financial statements would otherwise not understand those material transactions, other events or conditions.

### 3) Amendments to IAS 8 “Definition of Accounting Estimates”

The amendments define that accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. In applying accounting policies, the Company may be required to measure items at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, the Company uses measurement techniques and inputs to develop accounting estimates to achieve the objective. The effects on an accounting estimate of a change in a measurement technique or a change in an input are changes in accounting estimates unless they result from the correction of prior period errors.

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 and associates. 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 and associates 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.

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 in the consolidated financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized in the consolidated 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.

When the entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the financial statements only to the extent that interests in the associate are not related to the Company.

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 property, plant and equipment, right-of-use asset and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use asset and intangible assets, to determine whether there is any indication that those assets have suffered an 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 FVTPL, Financial assets at amortized cost and investments in equity instruments at FVTOCI.

##### i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such financial assets are recognized in other income; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 24: Financial Instruments.

##### ii. 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.

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.

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

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.

The Company negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease substantially the less than, the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Company elects to apply the practical expedient to all of these rent concessions and, therefore, does not assess whether the rent concessions are lease modifications. Instead, the Company recognizes the reduction in lease payment in profit or loss, in the period in which the events or conditions that trigger the concession occur, and makes a corresponding adjustment to the lease liability.

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 in the ROC, 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, estimates 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 Company considers the economic implications of the COVID-19 when making its critical accounting 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 - allowance for sales returns and discounts from equity-method investments

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 allowances 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.

## 6. CASH

|                                       | <b>December 31</b> |                  |
|---------------------------------------|--------------------|------------------|
|                                       | <b>2020</b>        | <b>2019</b>      |
| Cash on hand                          | \$ 11,315          | \$ 10,815        |
| Checking accounts and demand deposits | <u>61,045</u>      | <u>50,511</u>    |
|                                       | <u>\$ 72,360</u>   | <u>\$ 61,326</u> |

## 7. FINANCIAL ASSETS AT FVTOCI

|                                                             | <b>December 31</b> |                  |
|-------------------------------------------------------------|--------------------|------------------|
|                                                             | <b>2020</b>        | <b>2019</b>      |
| <u>Current</u>                                              |                    |                  |
| Investments in equity instruments at FVTOCI                 |                    |                  |
| Domestic investments                                        |                    |                  |
| Listed shares and emerging market shares - preferred shares | <u>\$ 47,051</u>   | <u>\$ -</u>      |
| <u>Non-current</u>                                          |                    |                  |
| Investments in equity instruments at FVTOCI                 |                    |                  |
| Domestic investments                                        |                    |                  |
| Unlisted ordinary shares                                    | <u>\$ 91,457</u>   | <u>\$ 98,438</u> |

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

Refer to Note 26 for information relating to investments in equity instruments at FVTOCI pledged as security.

## 8. FINANCIAL ASSETS AT AMORTIZED COSTS

|                                                            | <b>December 31</b> |             |
|------------------------------------------------------------|--------------------|-------------|
|                                                            | <b>2020</b>        | <b>2019</b> |
| <u>Current</u>                                             |                    |             |
| Time deposits with original maturity of more than 3 months | <u>\$ 19,000</u>   | <u>\$ -</u> |
| <u>Non-current</u>                                         |                    |             |
| Repatriated offshore funds                                 | <u>\$ 158,159</u>  | <u>\$ -</u> |

The repatriated offshore funds were restricted for use due to the regulations on the management and application of repatriated offshore funds and taxation, and classified as financial assets at amortized cost - non-current.

## 9. TRADE RECEIVABLES

|                                     | <b>December 31</b> |                 |
|-------------------------------------|--------------------|-----------------|
|                                     | <b>2020</b>        | <b>2019</b>     |
| <u>Trade receivables</u>            |                    |                 |
| At amortized cost                   |                    |                 |
| Gross carrying amount               | \$ 6,282           | \$ 7,285        |
| Less: Allowance for impairment loss | <u>(108)</u>       | <u>(108)</u>    |
|                                     | <u>\$ 6,174</u>    | <u>\$ 7,177</u> |

The primary trade receivables were receivables of credit cards from National Credit Card Center of the ROC., 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:

|            | <b>December 31</b> |                 |
|------------|--------------------|-----------------|
|            | <b>2020</b>        | <b>2019</b>     |
| 0-30 days  | \$ 5,454           | \$ 6,244        |
| 31-60 days | <u>828</u>         | <u>1,041</u>    |
|            | <u>\$ 6,282</u>    | <u>\$ 7,285</u> |

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

|                           | <b>December 31</b> |               |
|---------------------------|--------------------|---------------|
|                           | <b>2020</b>        | <b>2019</b>   |
| Balance at January 1      | \$ 108             | \$ 108        |
| Add: Expected credit loss | <u>-</u>           | <u>-</u>      |
| Balance at December 31    | <u>\$ 108</u>      | <u>\$ 108</u> |

## 10. INVENTORIES, NET

|             | <b>December 31</b> |                   |
|-------------|--------------------|-------------------|
|             | <b>2020</b>        | <b>2019</b>       |
| Merchandise | \$ <u>410,201</u>  | \$ <u>398,854</u> |

The cost of goods sold included the reversal of write-down and disposal of inventory as follows:

|                                        | <b>For the Year Ended December 31</b> |             |
|----------------------------------------|---------------------------------------|-------------|
|                                        | <b>2020</b>                           | <b>2019</b> |
| Reversal of inventory write-down       | \$ (5,771)                            | \$ (966)    |
| Loss on scrap and physical inventories | 5,850                                 | 7,741       |

Previous write-downs were reversed as a result of selling the inventory that had been written down.

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

|                             | <b>December 31</b>  |                     |
|-----------------------------|---------------------|---------------------|
|                             | <b>2020</b>         | <b>2019</b>         |
| Investments in subsidiaries | \$ 2,390,807        | \$ 2,387,399        |
| Investments in associates   | <u>113,758</u>      | <u>124,936</u>      |
|                             | <u>\$ 2,504,565</u> | <u>\$ 2,512,335</u> |

### a. Investments in subsidiaries

|                                  | <b>December 31</b>  |                     |
|----------------------------------|---------------------|---------------------|
|                                  | <b>2020</b>         | <b>2019</b>         |
| New Path International Co., Ltd. | \$ 2,187,426        | \$ 2,179,719        |
| Bao Wei Optical Co., Ltd.        | 148,853             | 173,540             |
| Milanno Optical Co., Ltd.        | 40,881              | 13,237              |
| Boa Xiang Optical Co., Ltd.      | <u>13,647</u>       | <u>20,903</u>       |
|                                  | <u>\$ 2,390,807</u> | <u>\$ 2,387,399</u> |

|                                  | <b>Proportion of Ownership and Voting Rights</b> |             |
|----------------------------------|--------------------------------------------------|-------------|
| <b>Name of Company</b>           | <b>2020</b>                                      | <b>2019</b> |
| 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%         |

Income and other comprehensive income of the subsidiaries that adopted the equity method in 2020 and 2019 were recognized based on the financial reports of the subsidiaries in the same periods that had been reviewed by accountants.

b. Investments in associates

|                           | <b>December 31</b>                               |                   |
|---------------------------|--------------------------------------------------|-------------------|
|                           | <b>2020</b>                                      | <b>2019</b>       |
| Material associates       |                                                  |                   |
| Polylite Taiwan Co., Ltd. | <u>\$ 113,758</u>                                | <u>\$ 124,936</u> |
|                           | <b>Proportion of Ownership and Voting Rights</b> |                   |
| <b>Name of Company</b>    | <b>2020</b>                                      | <b>2019</b>       |
| Polylite Taiwan Co., Ltd. | 13.44%                                           | 13.98%            |

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 serves as the director and main legal person shareholder of Polylite Taiwan Co., Ltd. The management of the Company considered the Company as exercising significant influence on Polylite Taiwan Co., Ltd. and, therefore, it was accounted for using the equity method.

The Company disposed a portion of the shares of Polylite Taiwan Co., Ltd. during the year ended December 31, 2020. The profit and loss recognized are as follows:

|                                                                         | <b>For the Year Ended December 31, 2020</b> |
|-------------------------------------------------------------------------|---------------------------------------------|
| Proceeds from sale of investments accounted for using the equity method | \$ 6,690                                    |
| Less: Carrying amount                                                   | <u>(4,906)</u>                              |
| Gain on disposal of investments accounted for using the equity method   | <u>\$ 1,784</u>                             |

The share of income and other comprehensive income of the associates that adopted the equity method in 2020 and 2019 were recognized based on the financial reports of the associates in the same periods that had been reviewed by accountants.

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

| <b>Name of Company</b>    | <b>December 31</b> |                   |
|---------------------------|--------------------|-------------------|
|                           | <b>2020</b>        | <b>2019</b>       |
| Polylite Taiwan Co., Ltd. | <u>\$ 120,310</u>  | <u>\$ 176,641</u> |

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.

|                                                   | <b>December 31</b>                    |                   |
|---------------------------------------------------|---------------------------------------|-------------------|
|                                                   | <b>2020</b>                           | <b>2019</b>       |
| Current assets                                    | \$ 524,815                            | \$ 406,835        |
| Non-current assets                                | 747,661                               | 755,659           |
| Current liabilities                               | (360,324)                             | (200,110)         |
| Non-current liabilities                           | (28,351)                              | (29,834)          |
| Non-controlling interests                         | <u>(37,157)</u>                       | <u>(38,520)</u>   |
| Equity                                            | <u>\$ 846,644</u>                     | <u>\$ 894,030</u> |
| Proportion of the Company's ownership             | 13.44%                                | 13.98%            |
| Equity attributable to the Company                | <u>\$ 113,758</u>                     | <u>\$ 124,936</u> |
| Carrying amount                                   | <u>\$ 113,758</u>                     | <u>\$ 124,936</u> |
|                                                   | <b>For the Year Ended December 31</b> |                   |
|                                                   | <b>2020</b>                           | <b>2019</b>       |
| Operating revenue                                 | <u>\$ 445,877</u>                     | <u>\$ 498,931</u> |
| Net (loss) profit for the year                    | \$ (182)                              | \$ 49,142         |
| Other comprehensive loss                          | <u>(660)</u>                          | <u>(631)</u>      |
| Total comprehensive income (loss) for the year    | <u>\$ (842)</u>                       | <u>\$ 48,511</u>  |
| Dividends received from PolyLite Taiwan Co., Ltd. | <u>\$ 6,266</u>                       | <u>\$ 13,290</u>  |

## 12. PROPERTY, PLANT AND EQUIPMENT

|                                   | Freehold Land     | Buildings         | Transportation Equipment | Office Equipment  | Decoration Equipment | Leasehold improvement | Other Equipment | Total               |
|-----------------------------------|-------------------|-------------------|--------------------------|-------------------|----------------------|-----------------------|-----------------|---------------------|
| <u>Cost</u>                       |                   |                   |                          |                   |                      |                       |                 |                     |
| Balance at January 1, 2020        | \$ 288,993        | \$ 495,066        | \$ 3,840                 | \$ 301,863        | \$ 548,112           | \$ 5,924              | \$ 224          | \$ 1,644,022        |
| Additions                         | -                 | -                 | 108                      | 102,912           | 64,058               | 835                   | -               | 167,913             |
| Disposals                         | -                 | -                 | -                        | (13,152)          | (13,482)             | -                     | -               | (26,634)            |
| Reclassification                  | -                 | -                 | -                        | 3,546             | (3,546)              | -                     | -               | -                   |
| Balance at December 31, 2020      | <u>\$ 288,993</u> | <u>\$ 495,066</u> | <u>\$ 3,948</u>          | <u>\$ 395,169</u> | <u>\$ 595,142</u>    | <u>\$ 6,759</u>       | <u>\$ 224</u>   | <u>\$ 1,785,301</u> |
| <u>Accumulated depreciation</u>   |                   |                   |                          |                   |                      |                       |                 |                     |
| Balance at January 1, 2020        | \$ -              | \$ 43,082         | \$ 1,258                 | \$ 222,056        | \$ 420,692           | \$ 1,199              | \$ 126          | \$ 688,413          |
| Disposals                         | -                 | -                 | -                        | (10,842)          | (13,403)             | -                     | -               | (24,245)            |
| Depreciation expenses             | -                 | 11,310            | 797                      | 27,919            | 46,822               | 297                   | 21              | 87,166              |
| Balance at December 31, 2020      | <u>\$ -</u>       | <u>\$ 54,392</u>  | <u>\$ 2,055</u>          | <u>\$ 239,133</u> | <u>\$ 454,111</u>    | <u>\$ 1,496</u>       | <u>\$ 147</u>   | <u>\$ 751,334</u>   |
| Balance at December 31, 2020, net | <u>\$ 288,993</u> | <u>\$ 440,674</u> | <u>\$ 1,893</u>          | <u>\$ 156,036</u> | <u>\$ 141,031</u>    | <u>\$ 5,263</u>       | <u>\$ 77</u>    | <u>\$ 1,033,967</u> |
| <u>Cost</u>                       |                   |                   |                          |                   |                      |                       |                 |                     |
| Balance at January 1, 2019        | \$ 288,316        | \$ 495,304        | \$ 2,385                 | \$ 291,925        | \$ 473,232           | \$ 4,797              | \$ 194          | \$ 1,556,153        |
| Additions                         | 677               | (238)             | 1,950                    | 15,676            | 89,399               | 1,127                 | 30              | 108,621             |
| Disposals                         | -                 | -                 | (495)                    | (11,104)          | (9,153)              | -                     | -               | (20,752)            |
| 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> |
| <u>Accumulated depreciation</u>   |                   |                   |                          |                   |                      |                       |                 |                     |
| 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              |
| 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                | 20-50 years |
| Office equipment         | 1-10 years  |
| Transportation equipment | 1-5 years   |
| Decoration equipment     | 1-5 years   |
| Leasehold improvement    | 20 years    |
| Other equipment          | 5-10 years  |

Property, plant and equipment pledged as collateral for bank borrowings are set out in Note 26.

### 13. LEASE ARRANGEMENTS

#### a. Right-of-use assets

|                                             | <b>December 31</b>                    |                   |
|---------------------------------------------|---------------------------------------|-------------------|
|                                             | <b>2020</b>                           | <b>2019</b>       |
| Carrying amount                             | <u>\$ 571,206</u>                     | <u>\$ 568,755</u> |
|                                             | <b>For the Year Ended December 31</b> |                   |
|                                             | <b>2020</b>                           | <b>2019</b>       |
| Additions to right-of-use assets            | <u>\$ 222,958</u>                     | <u>\$ 241,385</u> |
| Depreciation charge for right-of-use assets | <u>\$ 224,507</u>                     | <u>\$ 223,744</u> |

Except for the aforementioned addition and recognized depreciation, the Company did not have significant sublease or impairment of right-of-use assets for the years ended December 31, 2020 and 2019.

#### b. Lease liabilities

|                                                              | <b>December 31</b> |                   |
|--------------------------------------------------------------|--------------------|-------------------|
|                                                              | <b>2020</b>        | <b>2019</b>       |
| <u>Carrying amount (incremental borrowing rate of 1.39%)</u> |                    |                   |
| Current                                                      | <u>\$ 180,685</u>  | <u>\$ 191,178</u> |
| Non-current                                                  | <u>\$ 394,299</u>  | <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 Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent. As of December 31, 2020 and 2019, the Company leased part of the warehouse, office and business premises to the lessor, and paid deposits of \$53,922 thousand and \$52,870 thousand, respectively, which were recognized as refundable deposits.

d. Other lease information

|                                                                   | <b>For the Year Ended December 31</b> |                   |
|-------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                   | <b>2020</b>                           | <b>2019</b>       |
| Expenses relating to short-term leases and low-value asset leases | \$ <u>757</u>                         | \$ <u>1,167</u>   |
| Total cash outflow for leases                                     | \$ <u>231,330</u>                     | \$ <u>231,504</u> |

#### 14. INVESTMENT PROPERTIES

|                                   | <b>Completed<br/>Investment<br/>Properties</b> |
|-----------------------------------|------------------------------------------------|
| <u>Cost</u>                       |                                                |
| Balance at January 1, 2020        | \$ 98,387                                      |
| Additions                         | <u>-</u>                                       |
| Balance at December 31, 2020      | <u>\$ 98,387</u>                               |
| <u>Accumulated depreciation</u>   |                                                |
| Balance at January 1, 2020        | \$ 17,091                                      |
| Depreciation expense              | <u>963</u>                                     |
| Balance at December 31, 2020      | <u>\$ 18,054</u>                               |
| Balance at December 31, 2020, net | <u>\$ 80,333</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>                               |

The abovementioned investment properties are leased out for 5 years. The lessees do not have bargain purchase options to acquire the investment properties at the expiry of the lease periods.

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.

|            | <b>December 31</b> |                   |
|------------|--------------------|-------------------|
|            | <b>2020</b>        | <b>2019</b>       |
| Fair value | <u>\$ 240,629</u>  | <u>\$ 221,091</u> |

The investment properties pledged as collateral for bank borrowing are set out in Note 26.

## 15. BORROWINGS

### a. Short-term borrowings

|                             | <b>December 31</b> |                  |
|-----------------------------|--------------------|------------------|
|                             | <b>2020</b>        | <b>2019</b>      |
| <u>Unsecured borrowings</u> |                    |                  |
| Line of credit borrowings   | <u>\$ 313,500</u>  | <u>\$ 80,000</u> |

The weighted average effective interest rates on bank loans were 0.93%-1.08% and 1.08% per annum as of December 31, 2020 and 2019, respectively.

### b. Long-term borrowings

|                                     | <b>December 31</b> |                   |
|-------------------------------------|--------------------|-------------------|
|                                     | <b>2020</b>        | <b>2019</b>       |
| <u>Secured borrowings (Note 26)</u> |                    |                   |
| Bank loans                          | \$ 446,744         | \$ 473,819        |
| Less: Current portions              | <u>(27,546)</u>    | <u>(26,629)</u>   |
| Long-term borrowings                | <u>\$ 419,198</u>  | <u>\$ 447,190</u> |

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 monthly interest. From the third year, principal with interest will be paid on monthly basis for 20 years. The effective interest rates were 1.1% and 1.39% per annum as of December 31, 2020 and 2019, respectively.



## 16. OTHER LIABILITIES

|                                     | December 31       |                   |
|-------------------------------------|-------------------|-------------------|
|                                     | 2020              | 2019              |
| <u>Current</u>                      |                   |                   |
| Other payables                      |                   |                   |
| Payables for salaries or bonuses    | \$ 156,556        | \$ 160,525        |
| Payables for purchases of equipment | 29,113            | 16,606            |
| Payables for annual leave           | 14,475            | 12,881            |
| Payables for business tax           | 11,240            | 10,729            |
| Payables for premiums               | 8,867             | 8,833             |
| Payables for services               | 1,114             | 286               |
| Others                              | <u>39,738</u>     | <u>39,649</u>     |
|                                     | <u>\$ 261,103</u> | <u>\$ 249,509</u> |
| <u>Non-current</u>                  |                   |                   |
| Guarantee deposits                  |                   |                   |
| Guarantee deposits for engagement   | \$ 211,964        | \$ 205,487        |
| Others                              | <u>700</u>        | <u>700</u>        |
|                                     | <u>\$ 212,664</u> | <u>\$ 206,187</u> |

## 17. 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 ROC. 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:

|                                             | <b>December 31</b> |                   |
|---------------------------------------------|--------------------|-------------------|
|                                             | <b>2020</b>        | <b>2019</b>       |
| Present value of defined benefit obligation | \$ 22,309          | \$ 23,336         |
| Fair value of plan assets                   | <u>(34,708)</u>    | <u>(32,039)</u>   |
| Net defined benefit assets                  | <u>\$ (12,399)</u> | <u>\$ (8,703)</u> |

Movements in net defined benefit assets were as follows:

|                                                                       | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan Assets</b> | <b>Net Defined<br/>Benefit<br/>Liabilities<br/>(Assets)</b> |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------|
| Balance at January 1, 2019                                            | \$ 23,850                                                          | \$ (28,211)                              | \$ (4,361)                                                  |
| 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<br>included in net interest) | -                                                                  | (945)                                    | (945)                                                       |
| Actuarial loss - experience adjustments                               | <u>(753)</u>                                                       | <u>-</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                                          | 23,336                                                             | (32,039)                                 | (8,703)                                                     |
| Service cost                                                          |                                                                    |                                          |                                                             |
| Net interest expense (income)                                         | <u>233</u>                                                         | <u>(333)</u>                             | <u>(100)</u>                                                |
| Recognized in profit or loss                                          | <u>233</u>                                                         | <u>(333)</u>                             | <u>(100)</u>                                                |
| Remeasurement                                                         |                                                                    |                                          |                                                             |
| Return on plan assets (excluding amounts<br>included in net interest) | -                                                                  | (922)                                    | (922)                                                       |
| Actuarial loss - experience adjustments                               | <u>(1,260)</u>                                                     | <u>-</u>                                 | <u>(1,260)</u>                                              |
| Recognized in other comprehensive loss                                | <u>(1,260)</u>                                                     | <u>(922)</u>                             | <u>(2,182)</u>                                              |
| Contributions from the employer                                       | <u>-</u>                                                           | <u>(1,414)</u>                           | <u>(1,414)</u>                                              |
| Balance at December 31, 2020                                          | <u>\$ 22,309</u>                                                   | <u>\$ (34,708)</u>                       | <u>\$ (12,399)</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:

|                                  | <b>December 31</b> |             |
|----------------------------------|--------------------|-------------|
|                                  | <b>2020</b>        | <b>2019</b> |
| Discount rate                    | 0.5%               | 1%          |
| Expected rate of salary increase | 2%                 | 2%          |
| Turnover rate                    | 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:

|                                  | <b>December 31</b> |             |
|----------------------------------|--------------------|-------------|
|                                  | <b>2020</b>        | <b>2019</b> |
| Discount rate                    |                    |             |
| 0.25% increase                   | \$ (536)           | \$ (575)    |
| 0.25% decrease                   | \$ 553             | \$ 595      |
| Expected rate of salary increase |                    |             |
| 1% increase                      | \$ 2,262           | \$ 2,452    |
| 1% decrease                      | \$ (2,036)         | \$ (2,192)  |

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.

|                                                       | <b>December 31</b> |             |
|-------------------------------------------------------|--------------------|-------------|
|                                                       | <b>2020</b>        | <b>2019</b> |
| Expected contributions to the plans for the next year | \$ 1,414           | \$ 2,588    |
| Average duration of the defined benefit obligation    | 9.7 years          | 10.1 years  |

## 18. EQUITY

### a. Share capital

#### Ordinary shares

|                                                       | <b>December 31</b> |             |
|-------------------------------------------------------|--------------------|-------------|
|                                                       | <b>2020</b>        | <b>2019</b> |
| Number of shares authorized (in thousands)            | 85,000             | 85,000      |
| Shares authorized                                     | \$ 850,000         | \$ 850,000  |
| Number of shares issued and fully paid (in thousands) | 60,060             | 60,060      |
| Shares issued                                         | \$ 600,599         | \$ 600,599  |

b. Capital surplus

|                                                                                                            | December 31       |                   |
|------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                            | 2020              | 2019              |
| May be used to offset a deficit, distributed as<br><u>cash dividends, or transferred to share capital*</u> |                   |                   |
| Treasury share transactions                                                                                | \$ 502            | \$ 502            |
| <u>May only be used to offset a deficit</u>                                                                |                   |                   |
| Changes in percentage of ownership interests in subsidiaries                                               | 482,785           | 482,773           |
| <u>May not be used for any purpose</u>                                                                     |                   |                   |
| Others                                                                                                     | <u>182</u>        | <u>182</u>        |
|                                                                                                            | <u>\$ 483,469</u> | <u>\$ 483,457</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. For the policies on the distribution of compensation of employees and remuneration of directors and supervisors after the amendment, refer to compensation of employees and remuneration of directors and supervisors in Note 20, g.

The Company's dividend policy is designed to meet the current and future development plans and takes into consideration the investment environment, funding requirements, and foreign or domestic competition while simultaneously meeting the interests of shareholders. When there is no cumulative loss, the 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 paid-in capital. The dividends could be distributed either through cash or shares, and cash dividends shall not be less than 10% of the total dividends.

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 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 2019 and 2018 that were approved in the shareholders' meetings on June 24, 2020 and June 21, 2019, respectively, were as follows:

|                 | <b>Appropriation of Earnings</b>      |             | <b>Dividends Per Share (NT\$)</b>     |             |
|-----------------|---------------------------------------|-------------|---------------------------------------|-------------|
|                 | <b>For the Year Ended December 31</b> |             | <b>For the Year Ended December 31</b> |             |
|                 | <b>2019</b>                           | <b>2018</b> | <b>2019</b>                           | <b>2018</b> |
| Legal reserve   | \$ 41,639                             | \$ 25,352   |                                       |             |
| Special reserve | 34,884                                | 93,946      |                                       |             |
| Cash dividends  | 240,240                               | 228,228     | \$4                                   | \$3.8       |

The appropriation of earnings for 2020 had been proposed by the Company's board of directors on March 24, 2021. The appropriation and dividends per share were as follows:

|                 | <b>Appropriation<br/>of Earnings</b> | <b>Dividends Per<br/>Share (NT\$)</b> |
|-----------------|--------------------------------------|---------------------------------------|
| Legal reserve   | \$ 32,634                            |                                       |
| Special reserve | 12,097                               |                                       |
| Cash dividends  | 240,240                              | \$4                                   |

The appropriation of earnings for 2020 is subject to resolution in the shareholders' meeting to be held on June 23, 2021.

## 19. REVENUE

According to IFRS 15, customer contract revenue is identified as product sales revenue. The Company's sales revenue comes from sales of optical glasses.

|                                  | <b>For the Year Ended December 31</b> |                     |
|----------------------------------|---------------------------------------|---------------------|
|                                  | <b>2020</b>                           | <b>2019</b>         |
| Customer contracts revenue       |                                       |                     |
| Sales revenue of optical glasses | <u>\$ 2,234,017</u>                   | <u>\$ 2,322,314</u> |

## 20. NET PROFIT (LOSS)

Net profit in 2020 includes the following items:

- a. Interest income

|                                    | <b>For the Year Ended December 31</b> |                 |
|------------------------------------|---------------------------------------|-----------------|
|                                    | <b>2020</b>                           | <b>2019</b>     |
| Discounted bills                   | \$ 7,294                              | \$ 7,543        |
| Financial assets at amortized cost | 3,640                                 | -               |
| Bank deposits                      | <u>104</u>                            | <u>87</u>       |
|                                    | <u>\$ 11,038</u>                      | <u>\$ 7,630</u> |

b. Other income (Note 25)

|               | <b>For the Year Ended December 31</b> |                  |
|---------------|---------------------------------------|------------------|
|               | <b>2020</b>                           | <b>2019</b>      |
| Rental income | \$ 20,821                             | \$ 20,606        |
| Others        | <u>37,455</u>                         | <u>27,604</u>    |
|               | <u>\$ 58,276</u>                      | <u>\$ 48,210</u> |

c. Other gains and losses

|                                                              | <b>For the Year Ended December 31</b> |                 |
|--------------------------------------------------------------|---------------------------------------|-----------------|
|                                                              | <b>2020</b>                           | <b>2019</b>     |
| Financial assets mandatorily classified as at FVTPL          | \$ 10,000                             | \$ 51           |
| Gain on disposal of associates                               | 1,784                                 | 1,029           |
| Net foreign exchange loss                                    | (8,798)                               | (3)             |
| Gain on disposal of property, plant and equipment (Note 25f) | 858                                   | 217             |
| Gain on lease modification                                   | <u>3,926</u>                          | <u>2,006</u>    |
|                                                              | <u>\$ 7,770</u>                       | <u>\$ 3,300</u> |

d. Finance costs

|                                     | <b>For the Year Ended December 31</b> |                  |
|-------------------------------------|---------------------------------------|------------------|
|                                     | <b>2020</b>                           | <b>2019</b>      |
| Interest on loans                   | \$ 8,230                              | \$ 7,822         |
| Interest on leases liabilities      | 8,688                                 | 8,276            |
| Unwinding of discount on provisions | <u>318</u>                            | <u>205</u>       |
|                                     | <u>\$ 17,236</u>                      | <u>\$ 16,303</u> |

e. Depreciation and amortization

|                                         | <b>For the Year Ended December 31</b> |                   |
|-----------------------------------------|---------------------------------------|-------------------|
|                                         | <b>2020</b>                           | <b>2019</b>       |
| Right-of-use assets                     | \$ 224,507                            | \$ 223,744        |
| Property, plant and equipment           | 87,166                                | 73,997            |
| Investment properties                   | 963                                   | 1,060             |
| Intangible assets                       | <u>8,559</u>                          | <u>4,872</u>      |
|                                         | <u>\$ 321,195</u>                     | <u>\$ 303,673</u> |
| An analysis of depreciation by function |                                       |                   |
| Selling and marketing expenses          | \$ 296,047                            | \$ 284,270        |
| General and administrative expenses     | <u>16,589</u>                         | <u>14,531</u>     |
|                                         | <u>\$ 312,636</u>                     | <u>\$ 298,801</u> |

(Continued)

|                                         | <b>For the Year Ended December 31</b> |                 |
|-----------------------------------------|---------------------------------------|-----------------|
|                                         | <b>2020</b>                           | <b>2019</b>     |
| An analysis of amortization by function |                                       |                 |
| Selling and marketing expenses          | \$ 3,811                              | \$ 3,696        |
| General and administrative expenses     | <u>4,748</u>                          | <u>1,176</u>    |
|                                         | <u>\$ 8,559</u>                       | <u>\$ 4,872</u> |
|                                         |                                       | (Concluded)     |

f. Employee benefits expense

|                                                      | <b>For the Year Ended December 31</b> |                   |
|------------------------------------------------------|---------------------------------------|-------------------|
|                                                      | <b>2020</b>                           | <b>2019</b>       |
| Post-employment benefits (Note 17)                   |                                       |                   |
| Defined contribution plans                           | \$ 26,404                             | \$ 25,396         |
| Defined benefit plans                                | <u>(100)</u>                          | <u>(56)</u>       |
|                                                      | 26,304                                | 25,340            |
| Other employee benefits                              | <u>701,925</u>                        | <u>718,457</u>    |
| Total employee benefits expense                      | <u>\$ 728,229</u>                     | <u>\$ 743,797</u> |
| An analysis of employee benefits expense by function |                                       |                   |
| Operating expenses                                   | <u>\$ 728,229</u>                     | <u>\$ 743,797</u> |

g. Compensation of employees and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrues compensation of employees 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, compensation of employees, and remuneration of directors and supervisors. The compensation of employees and the remuneration of directors and supervisors for the years ended December 31, 2020 and 2019, which were approved by the Company's board of directors on March 24, 2021 and March 27, 2020, respectively, are as follows:

Accrual rate

|                                           | <b>For the Year Ended December 31</b> |             |
|-------------------------------------------|---------------------------------------|-------------|
|                                           | <b>2020</b>                           | <b>2019</b> |
| Compensation of employees                 | 2.5%                                  | 2.5%        |
| Remuneration of directors and supervisors | 1%                                    | 1%          |

Amount

|                                           | <b>For the Year Ended December 31</b> |             |
|-------------------------------------------|---------------------------------------|-------------|
|                                           | <b>2020</b>                           | <b>2019</b> |
|                                           | <b>Cash</b>                           | <b>Cash</b> |
| Compensation of employees                 | \$ 9,618                              | \$ 11,339   |
| Remuneration of directors and supervisors | 3,847                                 | 4,536       |

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 compensation of employees and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2019 and 2018.

Information on the compensation of employees and remuneration of directors and supervisors resolved by the Company's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. INCOME TAX

### a. Income tax recognized in profit or loss

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

|                                                 | <b>For the Year Ended December 31</b> |                  |
|-------------------------------------------------|---------------------------------------|------------------|
|                                                 | <b>2020</b>                           | <b>2019</b>      |
| Current tax                                     |                                       |                  |
| In respect of the current period                | \$ 27,885                             | \$ 37,939        |
| Adjustments for prior year                      | (1,401)                               | 1                |
| Repatriated offshore funds                      | <u>15,809</u>                         | <u>-</u>         |
|                                                 | <u>42,293</u>                         | <u>37,940</u>    |
| Deferred tax                                    |                                       |                  |
| In respect of the current period                | 36,436                                | 45,182           |
| Repatriated offshore funds                      | <u>(15,809)</u>                       | <u>(24,482)</u>  |
|                                                 | <u>20,627</u>                         | <u>20,700</u>    |
| Income tax expense recognized in profit or loss | <u>\$ 62,920</u>                      | <u>\$ 58,640</u> |

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

|                                                      | <b>For the Year Ended December 31</b> |                   |
|------------------------------------------------------|---------------------------------------|-------------------|
|                                                      | <b>2020</b>                           | <b>2019</b>       |
| Income before income tax                             | <u>\$ 371,241</u>                     | <u>\$ 437,692</u> |
| Income tax expense calculated at the statutory rate  | \$ 74,248                             | \$ 87,538         |
| Nondeductible expenses in determining taxable income | 200                                   | 74                |
| Tax-exempt income                                    | (2,127)                               | (4,491)           |
| Realized investment losses                           | (8,000)                               | -                 |
| Tax preference of repatriated offshore funds         | -                                     | (24,482)          |
| Adjustments for prior year                           | <u>(1,401)</u>                        | <u>1</u>          |
| Income tax expense recognized in profit or loss      | <u>\$ 62,920</u>                      | <u>\$ 58,640</u>  |

In July 2019, the president of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. When calculating the tax on unappropriated earnings, the Company only deducts the amount of the unappropriated earnings that has been reinvested in capital expenditure.



The Regulations on the Management, Utilization and Taxation of Overseas Fund Repatriation were implemented in August 2019 (only implemented for 2 years). The tax rates for the repatriation of funds are 8% and 10% in the first year and the second year, respectively. The Company has considered relevant tax preference of repatriated offshore funds when calculating current income tax.

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, 2020

|                                                   | <b>Opening<br/>Balance</b> | <b>Recognized in<br/>Profit (Loss)</b> | <b>Recognized in<br/>Other<br/>Compre-<br/>hensive<br/>Income (Loss)</b> | <b>Closing<br/>Balance</b> |
|---------------------------------------------------|----------------------------|----------------------------------------|--------------------------------------------------------------------------|----------------------------|
| <u>Deferred tax assets</u>                        |                            |                                        |                                                                          |                            |
| Temporary differences                             |                            |                                        |                                                                          |                            |
| Unrealized loss on<br>inventories                 | \$ 4,149                   | \$ (1,155)                             | \$ -                                                                     | \$ 2,994                   |
| Payables for annual leave                         | 2,576                      | 319                                    | -                                                                        | 2,895                      |
| Unrealized exchange losses                        | 2                          | 1,760                                  |                                                                          | 1,762                      |
| Others                                            | <u>2,459</u>               | <u>123</u>                             | <u>-</u>                                                                 | <u>2,582</u>               |
|                                                   | <u>\$ 9,186</u>            | <u>\$ 1,047</u>                        | <u>\$ -</u>                                                              | <u>\$ 10,233</u>           |
| <u>Deferred tax liabilities</u>                   |                            |                                        |                                                                          |                            |
| Temporary differences                             |                            |                                        |                                                                          |                            |
| Defined benefit obligation                        | \$ 3,871                   | \$ 303                                 | \$ 436                                                                   | \$ 4,610                   |
| Share of profit of subsidiaries<br>and associates | <u>290,004</u>             | <u>21,371</u>                          | <u>3,792</u>                                                             | <u>315,167</u>             |
|                                                   | <u>\$ 293,875</u>          | <u>\$ 21,674</u>                       | <u>\$ 4,228</u>                                                          | <u>\$ 319,777</u>          |

For the year ended December 31, 2019

|                                   | <b>Opening<br/>Balance</b> | <b>Recognized in<br/>Profit (Loss)</b> | <b>Recognized in<br/>Other<br/>Compre-<br/>hensive<br/>Income (Loss)</b> | <b>Closing<br/>Balance</b> |
|-----------------------------------|----------------------------|----------------------------------------|--------------------------------------------------------------------------|----------------------------|
| <u>Deferred tax assets</u>        |                            |                                        |                                                                          |                            |
| Temporary differences             |                            |                                        |                                                                          |                            |
| Unrealized loss on<br>inventories | \$ 4,342                   | \$ (193)                               | \$ -                                                                     | \$ 4,149                   |
| Payables for annual leave         | 2,030                      | 546                                    | -                                                                        | 2,576                      |
| Unrealized exchange losses        | 2                          | -                                      | -                                                                        | 2                          |
| Others                            | <u>2,370</u>               | <u>89</u>                              | <u>-</u>                                                                 | <u>2,459</u>               |
|                                   | <u>\$ 8,744</u>            | <u>\$ 442</u>                          | <u>\$ -</u>                                                              | <u>\$ 9,186</u>            |
|                                   |                            |                                        |                                                                          | (Continued)                |

|                                                   | Opening<br>Balance | Recognized in<br>Profit (Loss) | Recognized in<br>Other<br>Compre-<br>hensive<br>Income (Loss) | Closing<br>Balance               |
|---------------------------------------------------|--------------------|--------------------------------|---------------------------------------------------------------|----------------------------------|
| <u>Deferred tax liabilities</u>                   |                    |                                |                                                               |                                  |
| Temporary differences                             |                    |                                |                                                               |                                  |
| Defined benefit obligation                        | \$ 3,003           | \$ 528                         | \$ 340                                                        | \$ 3,871                         |
| Share of profit of subsidiaries<br>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><br>(Concluded) |

c. Income tax assessments

Except for 2019, the tax returns of the Company through 2018 have been assessed by the tax authorities.

## 22. 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> |                   |
|-------------------------|---------------------------------------|-------------------|
|                         | 2020                                  | 2019              |
| Net profit for the year | <u>\$ 308,321</u>                     | <u>\$ 379,052</u> |

Unit: In Thousand Shares

|                                                                                                            | <u>For the Year Ended December 31</u> |               |
|------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------|
|                                                                                                            | 2020                                  | 2019          |
| Weighted average number of ordinary shares outstanding in<br>computation of basic earnings per share       | 60,060                                | 60,060        |
| Effect of potentially dilutive ordinary shares:                                                            |                                       |               |
| Compensation of employees                                                                                  | <u>213</u>                            | <u>207</u>    |
| Weighted average number of ordinary shares outstanding in the<br>computation of diluted earnings per share | <u>60,273</u>                         | <u>60,267</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.

## 23. CAPITAL MANAGEMENT

The Company manages its capital to ensure that 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.

## 24. 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, 2020

|                                   | Level 1          | Level 2     | Level 3          | Total             |
|-----------------------------------|------------------|-------------|------------------|-------------------|
| Financial assets at FVTOCI        |                  |             |                  |                   |
| Investment in equity instruments  |                  |             |                  |                   |
| Listed shares - preference shares | \$ 47,051        | \$ -        | \$ -             | \$ 47,051         |
| Unlisted shares - ordinary shares | <u>-</u>         | <u>-</u>    | <u>91,457</u>    | <u>91,457</u>     |
|                                   | <u>\$ 47,051</u> | <u>\$ -</u> | <u>\$ 91,457</u> | <u>\$ 138,508</u> |

December 31, 2019

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

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

|                                        | <b>December 31</b> |             |
|----------------------------------------|--------------------|-------------|
|                                        | <b>2020</b>        | <b>2019</b> |
| <u>Financial assets</u>                |                    |             |
| Financial assets at amortized cost (1) | \$ 286,810         | \$ 93,820   |
| Financial assets at FVTOCI             |                    |             |
| Equity instruments                     | 138,508            | 98,438      |

Financial liabilities

|                                             |           |         |
|---------------------------------------------|-----------|---------|
| Financial liabilities at amortized cost (2) | 1,193,410 | 981,961 |
|---------------------------------------------|-----------|---------|

- 1) The balances include financial assets at amortized cost, which comprise cash, trade receivables and other receivables.
- 2) The balances include financial liabilities measured at amortized cost, which comprise short-term, notes payable and trade payables, other payables, current portion of long-term borrowings and long-term borrowings.

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 foreign currency risk, 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 manages 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 Company 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 foreign currency exchange rates (see (a) below), interest rates (see (b) below) and other price (see (c) below).

There had been no change to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk. The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the year are set out in Note 27.

### Sensitivity analysis

The following table details the Company's sensitivity to a 5% increase and decrease in the NTD against the USD. The sensitivity analysis included only outstanding foreign currency denominated monetary items. A positive number below indicates an increase in pre-tax profit associated with the NTD depreciating 5% against the USD. For a 5% appreciation of the NTD against the USD, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

|                | <b>USD Impact (*)</b>                 |             |
|----------------|---------------------------------------|-------------|
|                | <b>For the Year Ended December 31</b> |             |
|                | <b>2020</b>                           | <b>2019</b> |
| Profit or loss | \$ 7,932                              | \$ 6        |

\* This was mainly attributable to the exposure on outstanding financial assets at amortized cost in USD of cash flow hedges at the end of the reporting period.

#### b) 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:

|                               | <b>December 31</b> |             |
|-------------------------------|--------------------|-------------|
|                               | <b>2020</b>        | <b>2019</b> |
| Fair value interest rate risk |                    |             |
| Financial liabilities         | \$ 10,000          | \$ -        |
| Cash flow interest rate risk  |                    |             |
| Financial assets              | 227,817            | 50,458      |
| Financial liabilities         | 750,244            | 553,819     |

### 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:

|                | <b>Market Rate Change Impact</b>      |             |
|----------------|---------------------------------------|-------------|
|                | <b>For the Year Ended December 31</b> |             |
|                | <b>2020</b>                           | <b>2019</b> |
| Profit or loss | \$ (522)                              | \$ (503)    |

#### c) Other price risk

The financial instruments is equity securities listed in the ROC and 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, 2020 and 2019 would have increased/decreased by \$6,925 thousand and \$4,922 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, 2020 and 2019, 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, 2020

|                                             | <b>Weighted<br/>Average<br/>Effective<br/>Interest Rate</b> | <b>On Demand<br/>or Less than<br/>1 Year</b> | <b>2-3 Years</b>  | <b>4-5 Years</b>  | <b>5+ Years</b>   |
|---------------------------------------------|-------------------------------------------------------------|----------------------------------------------|-------------------|-------------------|-------------------|
| <u>Non-derivative financial liabilities</u> |                                                             |                                              |                   |                   |                   |
| Non-interest bearing liabilities            |                                                             | \$ 433,166                                   | \$ -              | \$ -              | \$ -              |
| Lease liabilities                           |                                                             | 180,685                                      | 272,869           | 96,921            | 24,509            |
| Variable interest rate liabilities          | 0.93%-1.39%                                                 | 345,918                                      | 64,644            | 64,644            | 323,222           |
| Fixed interest rate liabilities             | 1.08%                                                       | <u>10,005</u>                                | <u>-</u>          | <u>-</u>          | <u>-</u>          |
|                                             |                                                             | <u>\$ 969,774</u>                            | <u>\$ 337,513</u> | <u>\$ 161,565</u> | <u>\$ 347,731</u> |

Additional information about the maturity analysis for lease liabilities:

|                   | <b>Less than 1<br/>Year</b> | <b>1-5 Years</b>  | <b>5+ Years</b>  | <b>Total</b>      |
|-------------------|-----------------------------|-------------------|------------------|-------------------|
| Lease liabilities | <u>\$ 187,248</u>           | <u>\$ 378,100</u> | <u>\$ 24,823</u> | <u>\$ 590,171</u> |

December 31, 2019

|                                             | <b>Weighted<br/>Average<br/>Effective<br/>Interest Rate</b> | <b>On Demand<br/>or Less than<br/>1 Year</b> | <b>2-3 Years</b>  | <b>4-5 Years</b>  | <b>5+ Years</b>   |
|---------------------------------------------|-------------------------------------------------------------|----------------------------------------------|-------------------|-------------------|-------------------|
| <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:

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

|                                                                               | <b>December 31</b> |                   |
|-------------------------------------------------------------------------------|--------------------|-------------------|
|                                                                               | <b>2020</b>        | <b>2019</b>       |
| Unsecured bank overdraft facilities, reviewed annually and payable on demand: |                    |                   |
| Amount used                                                                   | \$ 313,500         | \$ 80,000         |
| Amount unused                                                                 | <u>394,000</u>     | <u>500,000</u>    |
|                                                                               | <u>\$ 707,500</u>  | <u>\$ 580,000</u> |
| Secured bank overdraft facilities:                                            |                    |                   |
| Amount used                                                                   | \$ 446,744         | \$ 473,819        |
| Amount unused                                                                 | <u>79,236</u>      | <u>52,161</u>     |
|                                                                               | <u>\$ 525,980</u>  | <u>\$ 525,980</u> |

## 25. 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 the Company's chairman                             |
| Pao Lien Optical Co., Ltd.   | Other related party - its chairman and the Company's chairman are second-degree relatives |
| Polylite Taiwan Co., Ltd.    | Associate                                                                                 |
| Milanno Optical Co., Ltd.    | Subsidiary                                                                                |
| Bao Wei Optical Co., Ltd.    | Subsidiary                                                                                |
| Bao Xiang Optical Co., Ltd.  | Subsidiary                                                                                |

### b. Purchases of goods

| Related Party/Name                                                                                                     | For the Year Ended December 31 |            |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------|
|                                                                                                                        | 2020                           | 2019       |
| Other related party - its chairman and the Company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd. | \$ 637,382                     | \$ 714,818 |

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/Name                                                                                                     | December 31      |                  |
|-------------------|------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
|                   |                                                                                                                        | 2020             | 2019             |
| Other receivables | Other related party - its chairman and the Company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd. | \$ 26,533        | \$ 24,011        |
|                   | Subsidiaries                                                                                                           | 653              | 674              |
|                   |                                                                                                                        | <u>\$ 27,186</u> | <u>\$ 24,685</u> |

The outstanding trade receivables from related parties are unsecured.

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

| Line Item      | Related Party/Name                                                                                                     | December 31       |                   |
|----------------|------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                |                                                                                                                        | 2020              | 2019              |
| Notes payables | Other related party - its chairman and the Company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd. | \$ 288,153        | \$ 302,307        |
| Other payables | Other related party                                                                                                    | 2,322             | 2,778             |
|                |                                                                                                                        | <u>\$ 290,475</u> | <u>\$ 305,085</u> |

The outstanding trade payables from related parties are unsecured.



e. Other transactions with related parties

| Line Item             | Related Party/Name                                                                                                     | For the Year Ended December 31 |                  |
|-----------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------------|
|                       |                                                                                                                        | 2020                           | 2019             |
| 1) Other expenditures | Other related party                                                                                                    | \$ 10,139                      | \$ 13,022        |
| 2) Rental income      | Other related party - its chairman and the Company's chairman are second-degree relatives - Pao Lien Optical Co., Ltd. | \$ 14,399                      | \$ 14,229        |
|                       | Other related party - same chairman as the Company's chairman - Yung Sheng Optical Co., Ltd.                           | 5,150                          | 5,143            |
|                       | Subsidiaries                                                                                                           | <u>120</u>                     | <u>120</u>       |
|                       |                                                                                                                        | <u>\$ 19,669</u>               | <u>\$ 19,492</u> |

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 the Company's chairman are second-degree relatives), the lease period is from January 16, 2017 to January 31, 2022. The average monthly rent is \$1,200 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 is \$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 2020 and August 2019 to August 2022, respectively. The average monthly rent of \$5 thousand is collected by means of check.

| Line Item       | Related Party/Name                     | For the Year Ended December 31 |                 |
|-----------------|----------------------------------------|--------------------------------|-----------------|
|                 |                                        | 2020                           | 2019            |
| 3) Other income | Subsidiary - Bao Wei Optical Co., Ltd. | \$ 7,273                       | \$ 7,610        |
|                 | Subsidiaries                           | 686                            | 919             |
|                 | Other related party                    | 1,544                          | 453             |
|                 | Associates                             | <u>315</u>                     | <u>371</u>      |
|                 |                                        | <u>\$ 9,818</u>                | <u>\$ 9,353</u> |

f. Disposal of property, plant and equipment

| Related Party Name                       | Disposal Value                 |               | Gain (Loss) on Disposal        |               |
|------------------------------------------|--------------------------------|---------------|--------------------------------|---------------|
|                                          | For the Year Ended December 31 |               | For the Year Ended December 31 |               |
|                                          | 2020                           | 2019          | 2020                           | 2019          |
| Subsidiaries - Bao Wei Optical Co., Ltd. | <u>\$ 164</u>                  | <u>\$ 479</u> | <u>\$ 164</u>                  | <u>\$ 120</u> |

g. Compensation of key management personnel

|                              | <b>For the Year Ended December 31</b> |                  |
|------------------------------|---------------------------------------|------------------|
|                              | <b>2020</b>                           | <b>2019</b>      |
| Short-term employee benefits | \$ 11,772                             | \$ 12,465        |
| Post-employment benefits     | <u>254</u>                            | <u>229</u>       |
|                              | <u>\$ 12,026</u>                      | <u>\$ 12,694</u> |

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

## 26. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for bank borrowings:

|                                                                  | <b>December 31</b> |                   |
|------------------------------------------------------------------|--------------------|-------------------|
|                                                                  | <b>2020</b>        | <b>2019</b>       |
| Property, plant and equipment, net                               | \$ 680,018         | \$ 688,945        |
| Investment properties                                            | 80,333             | 81,296            |
| Financial assets at FVTOCI - listed shares and preference shares | <u>47,051</u>      | <u>-</u>          |
|                                                                  | <u>\$ 807,402</u>  | <u>\$ 770,241</u> |

## 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, 2020

|                                                   | <b>Foreign Currencies</b> | <b>Exchange Rate</b> | <b>Carrying Amount</b> |
|---------------------------------------------------|---------------------------|----------------------|------------------------|
| <u>Financial assets</u>                           |                           |                      |                        |
| Monetary items                                    |                           |                      |                        |
| USD                                               | \$ 5,570                  | 28.48 (USD:NTD)      | \$ 158,641             |
| Non-monetary items                                |                           |                      |                        |
| Investments accounted for using the equity method |                           |                      |                        |
| USD                                               | 76,806                    | 28.48 (USD:NTD)      | 2,187,426              |

December 31, 2019

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

## **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 ending 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.
- c. Information on major shareholders: List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder: See Table 5.

## **29. OTHERS**

Since January 2020, due to the spread of COVID-19 pandemic, governments of various countries have successively implemented epidemic prevention measures. However, the domestic epidemic has slowed down and government policies have been loosened; therefore, the Company assessed that it has little impact on its overall operations. Since the future of global epidemic is still uncertain, the Company will continue to pay attention to the development of the epidemic and adopt relevant countermeasures to alleviate the impact on the Company's operations.

**TABLE 1**

**FORMOSA OPTICAL TECHNOLOGY CORPORATION**

**MARKETABLE SECURITIES HELD**  
**DECEMBER 31, 2020**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Name of Holding Company                | Type and Name of Marketable Securities                      | Relationship with the Holding Company | Financial Statement Account              | December 31, 2020              |                                                        |                                      |                                                    | Note |
|----------------------------------------|-------------------------------------------------------------|---------------------------------------|------------------------------------------|--------------------------------|--------------------------------------------------------|--------------------------------------|----------------------------------------------------|------|
|                                        |                                                             |                                       |                                          | Shares/Units<br>(In Thousands) | Carrying Value<br>(Foreign Currencies in<br>Thousands) | Percentage<br>of<br>Ownership<br>(%) | Fair Value<br>(Foreign Currencies in<br>Thousands) |      |
| Formosa Optical Technology Corporation | Ordinary shares                                             |                                       |                                          |                                |                                                        |                                      |                                                    |      |
|                                        | Sunder Biomedical Tech Co., Ltd.                            | -                                     | Financial assets at FVTOCI - non-current | 7,463                          | \$ 91,457                                              | 12.44                                | \$ 91,457                                          | Note |
|                                        | Tsai Huei Tech Co., Ltd.                                    | -                                     | Financial assets at FVTOCI - non-current | 1,305                          | -                                                      | 1.92                                 | -                                                  |      |
|                                        | Shin Kong Financial Holding Co., Ltd.<br>Preferred Shares B | -                                     | Financial assets at FVTOCI - current     | 1,111                          | 47,051                                                 | 0.50                                 | 47,051                                             |      |

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

**TABLE 2**

**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, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name                           | Related Party              | Nature of Relationship                                                     | Transaction Details |            |               |               | Abnormal Transaction      |               | Notes/Accounts<br>(Payable) or Receivable |               | Note |
|----------------------------------------|----------------------------|----------------------------------------------------------------------------|---------------------|------------|---------------|---------------|---------------------------|---------------|-------------------------------------------|---------------|------|
|                                        |                            |                                                                            | Purchase/<br>Sale   | Amount     | % to<br>Total | Payment Terms | Unit Price                | Payment Terms | Ending Balance                            | % to<br>Total |      |
| Formosa Optical Technology Corporation | Pao Lien Optical Co., Ltd. | Its chairman and the<br>Company’s chairman are<br>second-degree relatives. | Purchase            | \$ 637,382 | 71.65         | 128 days      | No significant difference | 120 days      | Notes payable<br>\$ 288,153               | 94.95         |      |

**TABLE 3**

**FORMOSA OPTICAL TECHNOLOGY CORPORATION**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(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, 2020 |                             |                | Net Income (Losses) of the Investee | Share of Profits/Losses of Investee | Note                                  |
|--------------------------------------------|--------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|---------------------------------|-----------------------------|----------------|-------------------------------------|-------------------------------------|---------------------------------------|
|                                            |                                            |                        |                                                                                                                                 | December 31, 2020          | December 31, 2019 | Shares (In Thousands)           | Percentage of Ownership (%) | Carrying Value |                                     |                                     |                                       |
| Formosa Optical Technology Corporation     | Polylite Taiwan Corporation Limited        | Taiwan                 | Manufacture, process, import, export and sell all kinds of glasses, frames, optical equipment, contact lenses and eye solutions | \$ 37,798                  | \$ 39,318         | 6,266                           | 13.44                       | \$ 113,758     | \$ (182)                            | \$ 52                               | Accounted for using the equity method |
|                                            | New Path International Corporation Limited | Mauritius              | Investment activities                                                                                                           | 123,682                    | 123,682           | -                               | 100.00                      | 2,187,426      | 185,896                             | 185,896                             | 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                      | 40,881         | (12,356)                            | (12,356)                            | 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                      | 148,853        | 18,411                              | 18,411                              | 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                       | 13,647         | (10,365)                            | (7,256)                             | Subsidiary (Note 1)                   |
| New Path International Corporation Limited | Ginko International Corporation Limited    | Cayman                 | Investment activities                                                                                                           | US\$ 2,089                 | US\$ 2,089        | 17,853                          | 18.39                       | US\$ 74,851    | 993,776                             | 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                      | 14,540,495     | 995,975                             | 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                      | 3,607,767      | 67,873                              | N/A                                 | Subsidiary of joint venture           |
| Prosper Link International Limited (BVI)   | Haichang International Limited.            | Hong Kong              | Investment activities                                                                                                           | US\$ 2,089                 | US\$ 2,089        | -                               | 100.00                      | 14,740,959     | 986,902                             | N/A                                 | Subsidiary of joint venture           |
| Haichang Contact Lens Corporation Limited  | Gain Bless Management Ltd.                 | British Virgin Islands | Investment activities                                                                                                           | US\$ 1,150                 | US\$ 1,150        | 1,150                           | 100.00                      | 26,624         | 10,610                              | N/A                                 | Subsidiary of joint venture           |
| Gain Bless Management Ltd.                 | Horien Optic (Malaysia) Sdn. Bhd.          | Malaysia               | Sale of contact lenses and care solutions                                                                                       | US\$ 971                   | US\$ 971          | 1,750                           | 70.00                       | 21,586         | 10,676                              | N/A                                 | Subsidiary of joint venture           |
| Yung Sheng Optical Corporation Limited     | Master Harvest Global Ltd.                 | Anguilla               | Investment activities                                                                                                           | US\$ 10,000                | US\$ 10,000       | 10,000                          | 100.00                      | 176,914        | (17,370)                            | 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                       | (28,041)       | 9,340                               | N/A                                 | Subsidiary of joint venture           |
|                                            | Uni-Beauty Co., Ltd.                       | Japan                  | Sale of contact lenses and care solutions                                                                                       | JPY 290,000                | JPY 290,000       | 29,000                          | 100.00                      | 14,810         | (18,708)                            | 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.

TABLE 4

FORMOSA OPTICAL TECHNOLOGY CORPORATION

INFORMATION ON INVESTMENT IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(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, 2020 | Investment of Flows |        | Accumulated Outflow of Investment from Taiwan as of December 31, 2020 | Net Income (Losses) of the Investee Company | Percentage of Ownership | Share of Profits (Losses) (Note 2) | Carrying Amount as of December 31, 2020 (Note 3) | Accumulated Inward Remittance of Earnings as of December 31, 2020 |
|------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|---------------------------------------------------------------------|---------------------|--------|-----------------------------------------------------------------------|---------------------------------------------|-------------------------|------------------------------------|--------------------------------------------------|-------------------------------------------------------------------|
|                                                                  |                                                                                                                                                                                                                                                                                                                                                                                  |                                 |                      |                                                                     | Outflow             | Inflow |                                                                       |                                             |                         |                                    |                                                  |                                                                   |
| Haichang Contact Lens Corporation Limited                        | Merchandise and sale of contact lenses and care solution                                                                                                                                                                                                                                                                                                                         | \$ 1,888,765<br>(US\$ 66,319)   | Note 1               | \$ 59,495<br>(US\$ 2,089)                                           | \$ -                | \$ -   | \$ 59,495<br>(US\$ 2,089)                                             | \$ 914,471<br>(RMB 213,562)                 | 18.39                   | \$ 168,171                         | \$ 10,187,551                                    | \$ 162,564<br>(US\$ 5,708)                                        |
| Jiangsu Horien Contact Lens Corporation Limited                  | Merchandise and sale of contact lenses and care solution                                                                                                                                                                                                                                                                                                                         | 65,655<br>(RMB 15,000)          | Note 1               | 3,731<br>(US\$ 131)                                                 | -                   | -      | 3,731<br>(US\$ 131)                                                   | 299,092<br>(RMB 69,849)                     | 18.39                   | 55,003                             | 4,492,369                                        | -                                                                 |
| Heilongjiang Province Dingtai Pharmaceutical Corporation Limited | Manufacture tablets, capsules, powders and granules                                                                                                                                                                                                                                                                                                                              | 78,930<br>(RMB 18,033)          | Note 1               | 5,867<br>(US\$ 206)                                                 | -                   | -      | 5,867<br>(US\$ 206)                                                   | (5,597)<br>(RMB 1,307)                      | 9.09                    | -                                  | (1,709)<br>(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) | 299,040<br>(US\$ 10,500)        | Note 1               | 64,194<br>(US\$ 2,254)                                              | -                   | -      | 64,194<br>(US\$ 2,254)                                                | (5,751)<br>(RMB 1,343)                      | 11.36                   | -                                  | (11,058)<br>(US\$ 388)                           | -                                                                 |

| Accumulated Investments in Mainland China as of December 31, 2020 | Investment Amounts Authorized by the Investment Commission, MOEA | Upper Limit on Investment |
|-------------------------------------------------------------------|------------------------------------------------------------------|---------------------------|
| \$ 133,286<br>(US\$ 4,680)                                        | \$ 498,685<br>(US\$ 17,510)<br>(Note 4)                          | \$ 1,560,386<br>(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 100% owned by the Company. The book value of the investment at the end of the period is the book value of the equity recognized by Ginko International Co., Ltd., which is accounted for using the equity method.
- Note 4: Investment amount approved by the Ministry of Economic Affairs, R.O.C. are as follows:

| Name of Investee                                                 | Date       | Order No.   | Approved Amounts |
|------------------------------------------------------------------|------------|-------------|------------------|
| Haichang Contact Lens Corporation Limited                        | 2004.05.13 | 093009671   | US\$ 1,789       |
| Haichang Contact Lens Corporation Limited                        | 2004.12.06 | 093036370   | US\$ 1,130       |
| Haichang Contact Lens Corporation Limited                        | 2006.09.01 | 09500279650 | US\$ 2,549       |
| Haichang Contact Lens Corporation Limited                        | 2007.07.30 | 09600265450 | US\$ 1,128       |
| Haichang Contact Lens Corporation Limited                        | 2009.01.08 | 09700502730 | US\$ 432         |
| Haichang Contact Lens Corporation Limited                        | 2013.02.26 | 10200045160 | US\$ 1,134       |
| Haichang Contact Lens Corporation Limited                        | 2013.03.26 | 10200107280 | US\$ 941         |
| Haichang Contact Lens Corporation Limited                        | 2013.07.25 | 10200284980 | US\$ 752         |
| Haichang Contact Lens Corporation Limited                        | 2013.09.26 | 10200366260 | US\$ 1,313       |
| Haichang Contact Lens Corporation Limited                        | 2014.01.23 | 10300012480 | US\$ 738         |
| Haichang Contact Lens Corporation Limited                        | 2014.03.24 | 10300064660 | US\$ 368         |
| Haichang Contact Lens Corporation Limited                        | 2014.10.07 | 10300249790 | US\$ 734         |
| Jiangsu Horien Contact Lens Corporation Limited                  | 2006.10.30 | 09500346290 | US\$ 136         |
| Heilongjiang Province Dingtai Pharmaceutical Corporation Limited | 2006.10.18 | 09500314110 | US\$ 102         |
| Heilongjiang Province Dingtai Pharmaceutical Corporation Limited | 2007.01.25 | 09600019060 | US\$ 171         |
| Heilongjiang Haichang Biological Technology Corporation Limited  | 2008.05.07 | 09700127800 | US\$ 341         |
| Heilongjiang Haichang Biological Technology Corporation Limited  | 2009.01.08 | 09700496830 | US\$ 1,651       |
| Heilongjiang Haichang Biological Technology Corporation Limited  | 2009.07.06 | 09800229750 | US\$ 262         |
| Haichang Contact Lens Corporation Limited                        | 2020.07.09 | 10900168550 | US\$ 1,839       |
|                                                                  |            |             | US\$ 17,510      |

Note 5: The Company’s upper limit on investments in mainland China (calculated based on the higher of 60% of Formosa Optical 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: \$2,600,644 (net worth) × 60% = \$1,560,386.



**TABLE 5****FORMOSA OPTICAL TECHNOLOGY CORPORATION****INFORMATION ON MAJOR SHAREHOLDERS****DECEMBER 31, 2020**

| Name of Major Shareholder                 | Shares           |                             |
|-------------------------------------------|------------------|-----------------------------|
|                                           | Number of Shares | Percentage of Ownership (%) |
| Chieh Fu International Co., Ltd.          | 10,785,057       | 17.95                       |
| Chi Sheng Co., Ltd.                       | 5,745,025        | 9.56                        |
| JPMorgan Chase Bank, National Association | 4,996,000        | 8.31                        |
| Standard Chartered Bank (Taiwan) Limited  | 3,725,000        | 6.2                         |
| Chen, Zhi-Yong                            | 3,204,558        | 5.33                        |

Note: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the financial statements may differ from the actual number of shares that have been issued without physical registration because of different preparation basis.

# FORMOSA OPTICAL TECHNOLOGY CORPORATION

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**FORMOSA OPTICAL TECHNOLOGY CORPORATION****STATEMENT OF CASH****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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| <b>Item</b>                           | <b>Remark</b> | <b>Amount</b>    |
|---------------------------------------|---------------|------------------|
| Cash on hand                          |               | \$ 11,315        |
| Cash in banks                         |               |                  |
| Checking accounts and demand deposits | Note          | <u>61,045</u>    |
|                                       |               | <u>\$ 72,360</u> |

Note: Includes US\$4 thousand at US\$1:NT\$28.48.

**FORMOSA OPTICAL TECHNOLOGY CORPORATION****STATEMENT OF INVENTORIES****DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars)**

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| <b>Client Name</b>                             | <b>Amount</b>     |                   | <b>Remark</b> |
|------------------------------------------------|-------------------|-------------------|---------------|
|                                                | <b>Cost</b>       | <b>Market</b>     |               |
| Merchandise                                    | \$ 425,175        | <u>\$ 753,360</u> | Note          |
| Less: Allowance for inventory valuation losses | <u>(14,974)</u>   |                   |               |
|                                                | <u>\$ 410,201</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 THE EQUITY METHOD  
FOR THE YEAR ENDED DECEMBER 31, 2020

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

| Investees                               | Balance at January 1, 2020 |                     | Additions in Investment  |                  | Decrease in Investment   |                     | Increase<br>(Decrease) in<br>Using the<br>Equity Method | Balance at December 31, 2020 |        |                     | Market Value<br>or Net Assets<br>Value | Collateral |
|-----------------------------------------|----------------------------|---------------------|--------------------------|------------------|--------------------------|---------------------|---------------------------------------------------------|------------------------------|--------|---------------------|----------------------------------------|------------|
|                                         | Shares<br>(In Thousands)   | Amount              | Shares<br>(In Thousands) | Amount           | Shares<br>(In Thousands) | Amount              |                                                         | Shares<br>(In Thousands)     | %      | Amount              |                                        |            |
| Polylite Taiwan Ltd. (Note 1)           | 6,518                      | \$ 124,936          | -                        | \$ 404           | (252)                    | \$ (11,634)         | \$ 52                                                   | 6,266                        | 13.44  | \$ 113,758          | \$ 120,310                             | N/A        |
| New Path International Ltd.<br>(Note 2) |                            | 2,179,719           | -                        | 19,422           | -                        | (197,611)           | 185,896                                                 | -                            | 100.00 | 2,187,426           | 2,187,426                              | N/A        |
| Milanno Optical Ltd. (Note 3)           | 5,000                      | 13,237              | 4,000                    | 40,000           | (4,000)                  | -                   | (12,356)                                                | 5,000                        | 100.00 | 40,881              | 40,881                                 | N/A        |
| Bao Wei Optical Ltd. (Note 4)           | 10,000                     | 173,540             | -                        | -                | -                        | (43,098)            | 18,411                                                  | 10,000                       | 100.00 | 148,853             | 148,853                                | N/A        |
| Bao Xiang Optical Ltd.                  | 4,200                      | <u>20,903</u>       | -                        | <u>-</u>         | -                        | <u>-</u>            | <u>(7,256)</u>                                          | 4,200                        | 70.00  | <u>13,647</u>       | <u>13,647</u>                          |            |
|                                         |                            | <u>\$ 2,512,335</u> |                          | <u>\$ 59,826</u> |                          | <u>\$ (252,343)</u> | <u>\$ 184,747</u>                                       |                              |        | <u>\$ 2,504,565</u> | <u>\$ 2,511,117</u>                    |            |

Note 1: The increase in investment based on the proportion of capital surplus was \$12 thousand and investment based on the proportion of unrealized (losses) gains on financial assets at FVTOCI was \$241 thousand, and investment based on the proportion of net defined benefit was \$151 thousand. The decrease in investment based on issued cash dividend was \$6,266 thousand, disposal of 252 thousand shares of associates was \$4,906 thousand and the amount of foreign currency exchange difference was \$462 thousand.

Note 2: The increase in investment based on the foreign currency exchange difference was \$19,422 thousand. The decrease in investment based on issued cash dividend was \$197,611 thousand.

Note 3: The increase in investment based on shares of subsidiary's capital increase of 4,000 thousand shares was \$40,000 thousand. The decrease in investment based on shares of subsidiary's capital reduction was 4,000 thousand shares.

Note 4: The decrease in investment based on cash dividend received was \$41,642 thousand and investment based on the proportion of unrealized (losses) gains on financial assets at FVTOCI was \$1,456 thousand.

## FORMOSA OPTICAL TECHNOLOGY CORPORATION

## STATEMENT OF SHORT-TERM BORROWINGS

DECEMBER 31, 2020

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

| Borrowing Types      | Borrowing Banks                        | Balance,<br>December 31,<br>2020 | Maturity Date         | Interest<br>Rates (%) | Loan<br>Commitments | Collateral |
|----------------------|----------------------------------------|----------------------------------|-----------------------|-----------------------|---------------------|------------|
| Unsecured borrowings | DBS BANK LTD.                          | \$ 80,000                        | 2020.12.29-2021.01.29 | 0.93                  | \$ 80,000           | None       |
| Unsecured borrowings | Taipei Fubon Commercial Bank Co., Ltd. | 70,000                           | 2020.12.25-2021.03.25 | 0.95                  | 100,000             | None       |
| Unsecured borrowings | Yuanta Commercial Bank Co., Ltd.       | 80,000                           | 2020.12.21-2021.01.04 | 1.00                  | 100,000             | None       |
| Unsecured borrowings | Bank SinoPac Co. Ltd.                  | 73,500                           | 2020.12.31-2021.01.29 | 1.03                  | 97,500              | None       |
| Unsecured borrowings | E.SUN Commercial Bank, Ltd.            | <u>10,000</u>                    | 2020.12.15-2021.01.15 | 1.08                  | 70,000              | None       |
|                      |                                        | <u>\$ 313,500</u>                |                       |                       |                     |            |

**FORMOSA OPTICAL TECHNOLOGY CORPORATION****STATEMENT OF NET REVENUE****FOR THE YEAR ENDED DECEMBER 31, 2020****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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|                    | <b>Shipments<br/>(In Thousand<br/>Pieces)</b> | <b>Amount</b>              |
|--------------------|-----------------------------------------------|----------------------------|
| Contact lens       | 3,430                                         | \$ 846,154                 |
| Lenses             | 449                                           | 774,621                    |
| Spectacle frames   | 227                                           | 559,648                    |
| Eye drops          | 440                                           | 52,883                     |
| Others             | 72                                            | <u>21,063</u>              |
|                    |                                               | 2,254,369                  |
| Less: Sales return |                                               | <u>(20,352)</u>            |
|                    |                                               | <u><u>\$ 2,234,017</u></u> |

**FORMOSA OPTICAL TECHNOLOGY CORPORATION****STATEMENT OF COST OF GOOD SOLD  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

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| <b>Item</b>                                               | <b>Amount</b>     |
|-----------------------------------------------------------|-------------------|
| Inventory balance at beginning of year                    | \$ 419,599        |
| Add: Purchases, net                                       | 889,620           |
| Less: Inventory balance at end of year                    | (425,175)         |
| Others                                                    | (11,686)          |
| Other cost of goods sold                                  |                   |
| Add: Loss on disposal of inventory and inventory shortage | 5,850             |
| Less: Reversal of inventory write-down                    | <u>(5,771)</u>    |
|                                                           | <u>\$ 872,437</u> |



**FORMOSA OPTICAL TECHNOLOGY CORPORATION****STATEMENT OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)**

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| <b>Item</b>                  | <b>Selling and<br/>Marketing<br/>Expenses</b> | <b>General and<br/>Administrative<br/>Expenses</b> | <b>Total</b>        |
|------------------------------|-----------------------------------------------|----------------------------------------------------|---------------------|
| Payroll and related expenses | \$ 577,035                                    | \$ 44,969                                          | \$ 622,004          |
| Depreciation expenses        | 296,047                                       | 16,589                                             | 312,636             |
| Insurance expenses           | 51,053                                        | 4,342                                              | 55,395              |
| Professional service fees    | 1,832                                         | 9,249                                              | 11,081              |
| Others (not exceeding 5%)    | <u>198,394</u>                                | <u>35,424</u>                                      | <u>233,818</u>      |
|                              | <u>\$ 1,124,361</u>                           | <u>\$ 110,573</u>                                  | <u>\$ 1,234,934</u> |

**FORMOSA OPTICAL TECHNOLOGY CORPORATION**
**STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION  
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

|                            | 2020              | 2019              |
|----------------------------|-------------------|-------------------|
| Labor cost                 |                   |                   |
| Salary                     | \$ 622,004        | \$ 640,491        |
| Labor and health insurance | 50,255            | 49,124            |
| Pension                    | 26,304            | 25,340            |
| Food stipend               | 23,642            | 22,873            |
| Board compensation         | 3,847             | 4,536             |
| Others                     | <u>2,177</u>      | <u>1,433</u>      |
|                            | <u>\$ 728,229</u> | <u>\$ 743,797</u> |
| Depreciation               | \$ 312,636        | \$ 298,801        |
| Amortization               | 8,559             | 4,872             |

Note 1: As of December 31, 2020 and 2019, the Company had 904 and 884 employees, respectively. Among them 4 directors did not serve concurrently as employees for both years.

Note 2: a. Average labor cost for the years ended December 31, 2020 and 2019 was \$805 thousand and \$840 thousand, respectively.

b. Average salary and bonus for the years ended December 31, 2020 and 2019 were \$691 thousand and \$728 thousand, respectively.

c. The change in average salary was (5%).

d. Remuneration of supervisors for the years ended December 31, 2020 and 2019 we \$962 thousand and \$1,134 thousand, respectively.

e. The salary and remuneration policies of the Company's directors, managers and employees are as follows:

- 1) Directors and supervisors: Based on the profitability of the Company and for those directors and supervisors who have actually participated in and contributed to the Company's affairs, the chairman of the board proposes a salary proposal, which is reviewed by the remuneration committee and approved by the board of directors and supervisors.
- 2) Managers: Based on salary survey and analysis results and industry level adjustments, managers' salary structure and standards, company profitability and manager performance, and reviewed by the remuneration committee and approved by the board of directors.
- 3) Employees: According to the salary survey and analysis results, the Company's operating status and the individual performance achievement status, it is proposed by the unit's senior supervisor and approved by the executive vice director.