Stock Code:6668

# ZHONG YANG TECHNOLOGY CO., LTD.

## PARENT COMPANY ONLY FINANCIAL STATEMENTS

**with Independent Auditors' Report**
**For the Years Ended December 31, 2020 and 2019**

Address: No.21, Gongyequ 22nd Rd., Nantun Dist., Taichung City 40850, Taiwan (R.O.C.)
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The independent auditors' report and the accompanying parent company only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and parent company only financial statements, the Chinese version shall prevail.

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# Independent Auditors' Report

To the Board of Directors of Zhong Yang Technology Co., LTD.:

## Opinion

We have audited the financial statements of Zhong Yang Technology Co., LTD.(" the Company" ), which comprise the balance sheets as of December 31, 2020 and 2019, and the statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 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 audit of the financial statements as of and for the year ended December 31, 2020 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our judgment, the key audit matters that should be communicated in the audit report are as follow:

1. Operating Revenues - Revenue recognition of external warehouse

   Please refer to note 4(m) for accounting policy related of revenue.

   Information of revenue from contracts with customers is disclosed in note 6(r).

Description of key audit matter:

The Company is principally engaged in the manufacture, research and development and sales of mobile phone lens molds. The business involves a high degree of customization, and the molds need to sent to the customers' factories for testing and be modified with the customers' new product development. The sales revenue will be recognized after the development of mobile phone lens and the acceptance of the molds by customers. As it involves judging the timing of the transfer of products, and the sales revenue has a significant impact on the overall financial statements. Therefore, testing over the sales revenue from the external warehouses is one of the most significant assessments in our audit procedures this year.

Audit Procedures:

Our principal audit procedure included: assessing the appropriateness of the policy of recognition of sales revenue; evaluating and testing the related controls surrounding the aforementioned sales and collection cycle and the effectiveness of implementations; selecting and conducting external confirmations with warehouses testing of details; as well as selecting transactions which happen during a period of time before and after the reporting date in order to test whether the sales revenue is recognized within the correct period and to evaluate the accuracy of the sales revenue recognition.

2. Investment accounted for using equity method - subsidiary - sales revenue of external warehouse

Please refers to note 4(h) for accounting policy related to investment accounted for using equity method. Please refers to note 6(f) for details of investment accounted for using equity method.

The Company’s subsidiary JMO is mainly engaged in the manufacture, research and development, and sales of optical molds. The business involves a high degree of customization, and the molds need to send to the customers’ factory for testing, and be modified with the customers’ new product development. The sales revenue will be recognized after the development of mobile phone lens and the acceptance of the molds by customers.

In the consolidated view, the income of the subsidiary is significant, which involves judging the timing of the transfer of products, and the sales revenue has a significant impact on the overall consolidated financial statements. Therefore, testing over the sales revenue from the external warehouse is one of the most significant assessments in our audit procedures this year.

Audit procedures:

Our principle audit procedure included: assessing the appropriateness of the policy of recognition of sales revenue of JMO; evaluating and testing the related controls surrounding the aforementioned sales and collection cycle and the effectiveness of implementations; selecting and conducting external confirmations with warehouse testing of details; as well as selecting transactions which happen during a period of time before and after the reporting date in order to test whether the sales revenue is recognized within the correct period, and to evaluate the accuracy of the sales revenue recognition by JMO.

**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 Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 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 appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method 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 of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are I-Wen Wang and Yiu-Kwan Au.

KPMG

Taipei, Taiwan (Republic of China)
March 26, 2021

**Notes to Readers**

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

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

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

**ZHONG YANG TECHNOLOGY CO., LTD.**

**Balance Sheets**

**December 31, 2020 and 2019**

**(Expressed in Thousands of New Taiwan Dollars)**

| | | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| | **Assets** | **Amount** | **%** | **Amount** | **%** |
| | **Current assets:** | | | | |
| 1100 | Cash and cash equivalents (note 6(a)) | $ 388,203 | 12 | 608,574 | 19 |
| 1170 | Notes and accounts receivable, net (notes 6(c) and (r)) | 193,593 | 6 | 141,915 | 4 |
| 1180 | Accounts receivable, due from related parties (notes 6(c), (r) and 7) | 142,895 | 4 | 242,866 | 8 |
| 1200 | Other receivables (note 6(d)) | 5,765 | - | 7,268 | - |
| 1210 | Other receivables due from related parties (note 6(d) and 7) | - | - | 87,261 | 3 |
| 1310 | Inventories (note 6(e)) | 116,684 | 4 | 144,917 | 5 |
| 1410 | Prepayments and other current assets | 17,033 | - | 16,702 | - |
| | | 864,173 | 26 | 1,249,503 | 39 |
| | **Non-current assets:** | | | | |
| 1550 | Investments accounted for using equity method (note 6(f)) | 1,151,014 | 35 | 659,812 | 21 |
| 1600 | Property, plant and equipment (notes 6(g) and 8) | 1,034,581 | 32 | 1,040,050 | 33 |
| 1755 | Right-of-use assets (note 6(h)) | 64,274 | 2 | 58,325 | 2 |
| 1780 | Intangible assets | 8,959 | - | 9,460 | - |
| 1840 | Deferred tax assets (note 6(n)) | - | - | 41,365 | 1 |
| 1900 | Other non-current assets (notes 6(g) and 8) | 150,258 | 5 | 107,556 | 4 |
| | | 2,409,086 | 74 | 1,916,568 | 61 |
| | **Total assets** | **$ 3,273,259** | **100** | **3,166,071** | **100** |

| | | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|---|
| | **Liabilities and Equity** | **Amount** | **%** | **Amount** | **%** |
| | **Current liabilities:** | | | | |
| 2100 | Short-term borrowings (note 6(i)) | $ 160,000 | 5 | 510,000 | 16 |
| 2130 | Current contract liabilities (note 6(r) and 7) | 36,056 | 1 | 19,419 | 1 |
| 2170 | Notes and accounts payable | 31,279 | 1 | 16,130 | - |
| 2180 | Accounts payable due from related parties (note 7) | 48,655 | 2 | 20,416 | 1 |
| 2200 | Other payables (note 7) | 132,177 | 4 | 115,110 | 4 |
| 2230 | Current tax liabilities | 1,483 | - | 6,255 | - |
| 2280 | Current lease liabilities (note 6(l)) | 6,106 | - | 5,126 | - |
| 2300 | Other current liabilities | 1,731 | - | 7,177 | - |
| 2320 | Long-term borrowings, current portion (note 6(j)) | - | - | 75,000 | 2 |
| | | 417,487 | 13 | 774,633 | 24 |
| | **Non-Current liabilities:** | | | | |
| 2500 | Non-current financial liabilities at fair value through profit or loss (note 6(b)) | 1,955 | - | - | - |
| 2530 | Bonds payable (note 6(k)) | 633,478 | 19 | - | - |
| 2540 | Long-term borrowings (note 6(j)) | 184,814 | 6 | 78,930 | 2 |
| 2570 | Deferred tax liabilities (note 6(n)) | 31,922 | 1 | 24,861 | 1 |
| 2580 | Non-current lease liabilities (note 6(l)) | 59,483 | 2 | 53,265 | 2 |
| 2600 | Other non-current liabilities (notes 6(j) and (t)) | 2,774 | - | 404,000 | 13 |
| | | 914,426 | 28 | 561,056 | 18 |
| | **Total liabilities** | 1,331,913 | 41 | 1,335,689 | 42 |
| | **Equity (note 6(o)):** | | | | |
| 3110 | Ordinary shares | 683,399 | 21 | 683,923 | 21 |
| 3200 | Capital surplus (note 6(k)) | 792,897 | 24 | 820,356 | 26 |
| 3310 | Legal reserve | 65,481 | 2 | 53,573 | 2 |
| 3320 | Special reserve | 38,363 | 1 | 17,196 | - |
| 3350 | Unappropriated retained earnings | 393,111 | 12 | 301,051 | 10 |
| 3490 | Other equity | (31,905) | (1) | (45,717) | (1) |
| | **Total equity** | 1,941,346 | 59 | 1,830,382 | 58 |
| | **Total liabilities and equity** | **$ 3,273,259** | **100** | **3,166,071** | **100** |

See accompanying notes to financial statements.

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

# ZHONG YANG TECHNOLOGY CO., LTD.

## Statements of Comprehensive Income

## For the years ended December 31, 2020 and 2019

## (Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| 4100 | **Operating revenues (notes 6 (r) and 7)** | $ 1,021,742 | 100 | 890,148 | 100 |
| 5000 | **Operating costs (notes 6(e), 7 and 12)** | 790,579 | 77 | 652,380 | 73 |
| | **Gross profit from operations** | 231,163 | 23 | 237,768 | 27 |
| 5910 | Less: Unrealized profit (loss) from sales | (4,031) | - | 4,510 | 1 |
| 5900 | **Gross profit from operations** | 235,194 | 23 | 233,258 | 26 |
| | **Operating expenses: (notes 7 and 12)** | | | | |
| 6100 | Selling expenses | 32,714 | 3 | 29,433 | 3 |
| 6200 | Administrative expenses | 106,100 | 10 | 90,177 | 10 |
| 6300 | Research and development expenses | 118,813 | 12 | 131,841 | 15 |
| 6450 | Expected credit losses (reversed) (note 6(c)) | 6,224 | 1 | (1,728) | - |
| | | 263,851 | 26 | 249,723 | 28 |
| 6900 | **Net operating income (loss)** | (28,657) | (3) | (16,465) | (2) |
| | **Non-operating income and expenses:** | | | | |
| 7100 | Interest revenue (note 7) | 1,806 | - | 6,931 | 1 |
| 7230 | Foreign exchange gains (losses), net (note 6(u)) | (35,345) | (3) | (16,806) | (2) |
| 7375 | Share of profit of subsidiaries associates and joint ventures accounted for using equity method | 225,101 | 22 | 144,759 | 16 |
| 7050 | Interest expense (note 6 (k), (l)) | (15,314) | (2) | (7,674) | (1) |
| 7590 | Other gains (losses), net (notes 6(k) and 7) | 10,559 | 1 | 3,385 | - |
| | | 186,807 | 18 | 130,595 | 14 |
| 7900 | **Profit before tax** | 158,150 | 15 | 114,130 | 12 |
| 7950 | Less: income tax expenses (gains) (note 6(n)) | 32,421 | 3 | (4,955) | (1) |
| 8200 | **Profit** | 125,729 | 12 | 119,085 | 13 |
| 8300 | **Other comprehensive income:** | | | | |
| 8360 | **Items that may be reclassified subsequently to profit or loss** | | | | |
| 8361 | Exchange differences on translation | 19,046 | 2 | (26,459) | (3) |
| 8399 | Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(n)) | 9,591 | 1 | (5,292) | (1) |
| | | 9,455 | 1 | (21,167) | (2) |
| 8300 | **Other comprehensive income** | 9,455 | 1 | (21,167) | (2) |
| 8500 | **Comprehensive income** | **$ 135,184** | **13** | **97,918** | **11** |
| | **Earnings per common share (note 6 (q))** | | | | |
| 9750 | **Basic earnings per share (NT dollars)** | **$** | **1.85** | | **1.75** |
| 9850 | **Diluted earnings per share (NT dollars)** | **$** | **1.78** | | **1.75** |

See accompanying notes to financial statements.

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

# ZHONG YANG TECHNOLOGY CO., LTD.

## Statements of Changes in Equity

## For the years ended December 31, 2020 and 2019

## (Expressed in Thousands of New Taiwan Dollars)

| | Share capital | | Retained earnings | | | Other equity | | |
|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Unearned employee compensation | Total equity |
| **Balance at January 1, 2019** | $ 684,365 | 808,259 | 39,565 | 9,715 | 271,872 | (17,196) | (15,379) | 1,781,201 |
| Appropriation and distribution of retained earnings: | | | | | | | | |
| Legal reserve | - | - | 14,008 | - | (14,008) | - | - | - |
| Special reserve | - | - | - | 7,481 | (7,481) | - | - | - |
| Cash dividend on ordinary shares | - | - | - | - | (68,417) | - | - | (68,417) |
| | - | - | 14,008 | 7,481 | (89,906) | - | - | (68,417) |
| Profit for the year ended December 31, 2019 | - | - | - | - | 119,085 | - | - | 119,085 |
| Other comprehensive income for the year ended December 31, 2019 | - | - | - | - | - | (21,167) | - | (21,167) |
| Comprehensive income for the year ended December 31, 2019 | - | - | - | - | 119,085 | (21,167) | - | 97,918 |
| Changes in ownership interests in subsidiaries | - | 11,072 | - | - | - | - | - | 11,072 |
| Share-based payments transaction | (442) | 1,025 | - | - | - | - | 8,025 | 8,608 |
| Balance at December 31, 2019 | 683,923 | 820,356 | 53,573 | 17,196 | 301,051 | (38,363) | (7,354) | 1,830,382 |
| Appropriation and distribution of retained earnings: | | | | | | | | |
| Legal reserve | - | - | 11,908 | - | (11,908) | - | - | - |
| Special reserve | - | - | - | 21,167 | (21,167) | - | - | - |
| | - | - | 11,908 | 21,167 | (33,075) | - | - | - |
| Profit for the year ended December 31, 2020 | - | - | - | - | 125,729 | - | - | 125,729 |
| Other comprehensive income for the year ended December 31, 2020 | - | - | - | - | - | 9,455 | - | 9,455 |
| Comprehensive income for the year ended December 31, 2020 | - | - | - | - | 125,729 | 9,455 | - | 135,184 |
| Cash dividends from capital surplus | - | (54,694) | - | - | - | - | - | (54,694) |
| Changes in ownership interests in subsidiaries | - | 6,575 | - | - | (594) | - | - | 5,981 |
| Issuance of convertible bonds | - | 23,321 | - | - | - | - | - | 23,321 |
| Share-based payments transaction | (524) | (2,661) | - | - | - | - | 4,357 | 1,172 |
| **Balance at December 31, 2020** | **$ 683,399** | **792,897** | **65,481** | **38,363** | **393,111** | **(28,908)** | **(2,997)** | **1,941,346** |

See accompanying notes to financial statements.

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

# ZHONG YANG TECHNOLOGY CO., LTD.

## Statements of Cash Flows

## For the years ended December 31, 2020 and 2019

## (Expressed in Thousands of New Taiwan Dollars)

| | 2020 | 2019 |
|---|---|---|
| **Cash flows from (used in) operating activities:** | | |
| **Profit before tax** | $ 158,150 | 114,130 |
| **Adjustments:** | | |
| **Adjustments to reconcile profit (loss):** | | |
| Depreciation expense | 136,539 | 105,921 |
| Amortization expense | 4,065 | 3,517 |
| Expected credit loss (gain) | 6,224 | (1,728) |
| Net loss (profit) on financial assets or liabilities at fair value through profit or loss | 1,649 | - |
| Interest expense | 15,314 | 7,674 |
| Interest income | (1,806) | (6,931) |
| Share-based payment transactions | 3,873 | 10,155 |
| Share of profit of subsidiaries, associates and joint ventures accounted for using equity method | (225,101) | (144,759) |
| Unearned gross profits | (4,031) | 4,510 |
| Others | (1,974) | (436) |
| **Total adjustments to reconcile profit (loss)** | (65,248) | (22,077) |
| **Changes in operating assets and liabilities:** | | |
| Decrease (Increase) in notes and accounts receivable | 42,069 | (36,887) |
| Decrease (increase) in other receivables | 1,525 | (7,269) |
| Decrease in inventories | 28,233 | 20,206 |
| Decrease (increase) in prepayments and other current assets | 5,646 | (5,994) |
| Increase in contract liabilities | 16,637 | 13,319 |
| Increase (decrease) in notes and accounts payable (including related parties) | 43,388 | (44,313) |
| Increase in other payables | 22,554 | 19,912 |
| Increase (decrease) in other current liabilities | (5,446) | 4,300 |
| **Total changes in operating assets and liabilities** | 154,606 | (36,726) |
| **Total adjustments** | 89,358 | (58,803) |
| Cash inflow generated from operations | 247,508 | 55,327 |
| Interest received | 1,784 | 7,160 |
| Interest paid | (6,723) | (7,882) |
| Income taxes paid | (4,335) | (13,715) |
| **Net cash flows from operating activities** | 238,234 | 40,890 |
| **Cash flows from (used in) investing activities:** | | |
| Acquisition of investments accounted for using equity method | (237,911) | (105,563) |
| Acquisition of property, plant and equipment | (110,343) | (190,200) |
| Proceeds from disposal of property, plant and equipment | 9,643 | 12,013 |
| Decrease (increase) in refundable deposits | (675) | 806 |
| Decrease in other receivables due from related parties | 87,261 | 45,075 |
| Acquisition of intangible assets | (3,564) | (4,554) |
| Increase in prepayments of property, plant and equipment | (82,504) | (15,561) |
| Increase (decrease) in restricted assets | 12,453 | (19,737) |
| **Net cash used in investing activities** | (325,640) | (277,721) |
| **Cash flows from (used in) financing activities:** | | |
| Increase (decrease) in short-term borrowings | (350,000) | 284,000 |
| Proceeds from issuing bonds (excluding issue cost $5,230) | 245,020 | - |
| Increase in long-term borrowings | 127,320 | 110,180 |
| Repayments of long-term borrowings | (93,750) | (106,250) |
| Cash dividends paid | (54,694) | (68,417) |
| Restricted stocks cancellation | (1,833) | (1,547) |
| Payment of lease liabilities | (5,028) | (2,133) |
| Advances from issuance of convertible bonds | - | 404,000 |
| **Net cash flows from (used in) financing activities** | (132,965) | 619,833 |
| **Net increase (decrease) in cash and cash equivalents** | (220,371) | 383,002 |
| **Cash and cash equivalents at beginning of period** | 608,574 | 225,572 |
| **Cash and cash equivalents at end of period** | **$ 388,203** | **608,574** |

See accompanying notes to financial statements.

**ZHONG YANG TECHNOLOGY CO., LTD.**

**Notes to the Financial Statements**

**For the years ended December 31, 2020 and 2019**

**(expressed in Thousands of New Taiwan Dollars, unless otherwise specified)**

**(1) Company history**

Zhong Yang Technology Co., Ltd. (the "Company") was approved and established by Ministry of Economic Affairs (R.O.C.). The registered address is No.21, Gongyequ 22nd Rd., Nantun Dist., Taichung City 40850, Taiwan (R.O.C.). The major business activities of the Company are manufacture, research and development, sale of molds, and assemble digital lens and coat lens. The Company's common shares were listed on the Taiwan Stock Exchange (TWSE) in December 12, 2018.

**(2) Approval date and procedures of the financial statements:**

These financial statements were authorized for issue by the Board of Directors on March 18, 2021.

**(3) New standards, amendments and interpretations adopted:**

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

The Company has initially adopted the following new amendments, which do not have a significant impact on its financial statements, from January 1, 2020:

- Amendments to IFRS 3 "Definition of a Business"
- Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"
- Amendments to IAS 1 and IAS 8 "Definition of Material"
- Amendments to IFRS 16 "COVID-19-Related Rent Concessions"

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

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its consolidated financial statements:

- Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform－Phase 2"

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

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

| Standards or Interpretations | Content of amendment | Effective date per IASB |
|---|---|---|
| Amendments to IAS 1 “Classification of Liabilities as Current or Non-current” | The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.<br>The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. | January 1, 2023 |

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

The Company does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “ Insurance Contracts” and amendments to IFRS 17 “ Insurance Contracts”
- Amendments to IAS 16 “Property, Plant and Equipment－Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts－Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

**(4) Summary of significant accounting policies**

The significant accounting policies presented in the financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the financial statements.

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basic of measurement

The financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The financial statements are presented in New Taiwan Dollars (NTD), which is the Company's functional currency. All financial information presented in NTD has been rounded to the nearest thousand.

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Company disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(Continued)

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

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

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

(i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(iii) It is expected to be realized within twelve months after the reporting period; or

(iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

(i) It is expected to be settled in the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(iii) It is due to be settled within twelve months after the reporting period; or

(iv) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Financial assets

Financial assets are classified into the measured at amortized cost and fair value through profit or loss.

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

(Continued)

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

·it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

2) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

3) Impairment of financial assets

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

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

· debt securities that are determined to have low credit risk at the reporting date; and

· other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

(Continued)

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

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

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

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

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

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

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

·significant financial difficulty of the borrower or issuer;

·a breach of contract such as a default or being more than 90 days past due;

·the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

·it is probable that the borrower will enter bankruptcy or other financial reorganization; or

·the disappearance of an active market for a security because of financial difficulties.

(Continued)

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

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

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

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

(Continued)

2) Compound financial instruments

Compound financial instruments issued by the Company compromise convertible bond that can be converted to ordinary shares at the option of the holder, when the number of shares to be converted is fixed and does not vary with changes in fair value .

The liabilities component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liabilities is reclassified to equity and no gain or loss is recognized.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is a classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPTL are recognized in profit or loss.

Other financial liabilities are subsequently measured at fair value, plus any directly attributable transaction costs at the time of initial recognition, and amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss.

Any gain or loss on derecognized is also recognized in profit or loss.

4) Derecognition of financial liabilities

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

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

5) Offsetting of financial assets and liabilities

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

(Continued)

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Investment in subsidiaries

When preparing the parent-company-only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, the amounts of net income, other comprehensive income and equity attributable to shareholders of the Company in the parent-company-only financial statement are equal to those in the consolidated financial statements.

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

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings 5～35 years

2) Machinery and equipment 2～10years

3) Office equipment and other facilities 3～5 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

(j) Lease

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

2) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

3) the Company has the right to direct the use of the asset throughout the period of use only if either:

- the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or

- the relevant decisions about how and for what purpose the asset is used are predetermined and:

  — the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or

(Continued)

— the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

— fixed payments, including substance fixed payments;

— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

— there is a change in future lease payments arising from the change in an index or rate; or

— there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or

— there is a change in lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or

— there is  a change of its assessment on whether it will exercise a purchase, extension or termination option; or

— there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

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

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

(k) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising from the acquisition of subsidiaries is included in intangible assets.

2) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(ii) Research & development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

2) The intention to complete the intangible asset and use or sell it.

3) The ability to use or sell the intangible asset.

4) How the intangible asset will generate probable future economic benefits.

(Continued)

5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

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

(v) Amortization

The amortizable amount is the cost of an asset less its residual value.

Except for goodwill with indefinite useful life, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of software is 2~5 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year end. Any changes shall be accounted for as changes in accounting estimates.

(l) Impairment of non-financial assets

The carrying amounts of the Company' s non-financial assets, other than assets arising from construction contracts, deferred tax assets, and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value less costs of disposal and its value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset' s cash generating unit (CGU).

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount; and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

(Continued)

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An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset’ s recoverable amount since the last impairment loss was recognized.

(m) Recognition of revenue

Revenue is measured based on the consideration to which the Company expects to be entitled in exchanging for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of goods or service to a customer. The accounting policies for the Company’s main types of revenue are explained below.

(i) Sale of goods

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

A receivable is recognized when molds are accepted or the optical products are delivered as this is the profit in time that the Company has a right to an amount of consideration that is unconditional.

(ii) Financing components

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

(n) Government grants

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

(Continued)

(o) Employee benefits

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

(p) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

(q) Income taxes

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

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

(i) the entity has the legal right to settle tax assets and liabilities on a net basis; and

(Continued)

(ii) the taxing of deferred tax assets and liabilities fulfills one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also revaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retain earnings is approved in the stockholder's meeting.

(r) Earnings per share

The Company discloses the Company’s basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise employee compensation not yet approved by the Board of Directors, new restricted stocks for employees and convertible bonds.

(s) Operating segments

The operating segment information is disclosed within the consolidated financial statements but not disclosed in the parent-company-only financial statement.

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

The preparation of the financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements: None.

(Continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: None.

## (6) Explanation of significant accounts

(a) Cash and cash equivalents

| | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Cash on hand and petty cash | $ | 90 | 114 |
| Checking accounts and demand deposits | | 331,153 | 548,500 |
| Time deposits | | - | 59,960 |
| Short-term transaction instruments | | 56,960 | - |
| | **$** | **388,203** | **608,574** |

Please refer to note 6(u) for interest rate risk, and sensitivity analysis of the financial assets and liabilities of the Company.

(b) Financial assets and liabilities at fair value through profit or loss

| | | December 31, 2020 |
|---|---|---|
| Financial liabilities at fair value through profit or los-non-current: | | |
| Convertible bonds payable－embedded denatives | **$** | **1,955** |

Please refer to note 6(k) for convertible bonds payable－embedded denatives

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

| | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Notes receivable | $ | - | 1 |
| Accounts receivable | | 356,310 | 398,378 |
| Less: allowance for doubtful accounts | | (19,822) | (13,598) |
| | **$** | **336,488** | **384,781** |
| Notes and accounts receivable, net | **$** | **193,593** | **141,915** |
| Accounts receivable-related parties, net | **$** | **142,895** | **242,866** |

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The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. As of December 31, 2020 and 2019 the loss allowance provision of notes and accounts receivable were determined as follows:

| | December 31, 2020 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Weighted-average loss rate** | **Loss allowance provision** |
| Current | $ 276,003 | 0% | - |
| 1 to 30 days past due | 18,218 | 0.2% | 28 |
| 31 to 90 days past due | 25,340 | 4.1% | 1,033 |
| 91 to 180 days past due | 17,872 | 17.2% | 3,066 |
| 181 to 270 days past due | 6,800 | 53.2% | 3,618 |
| 271 to 360 days past due | 3,203 | 100% | 3,203 |
| More than 361 days past due | 8,874 | 100% | 8,874 |
| | **$ 356,310** | | **19,822** |

| | December 31, 2019 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Weighted-average loss rate** | **Loss allowance provision** |
| Current | $ 327,630 | 0% | - |
| 1 to 30 days past due | 22,272 | 9.30% | 2,072 |
| 31 to 90 days past due | 33,194 | 14.41% | 4,784 |
| 91 to 180 days past due | 8,108 | 31.09% | 2,521 |
| 181 to 270 days past due | 5,756 | 51.30% | 2,953 |
| 271 to 360 days past due | 1,419 | 89.36% | 1,268 |
| | **$ 398,379** | | **13,598** |

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

| | **2020** | **2019** |
|---|---|---|
| Balance on January 1 | $ 13,598 | 15,326 |
| Impairment losses recognized (reversed) | 6,224 | (1,728) |
| Balance on December 31 | **$ 19,822** | **13,598** |

The Company considered the Covid 19 pandemic in response to a reasonable forecast of the uncertainty of the overall economic situation in the future, and increased the expected credit loss in the current period when measuring the expected credit loss of accounts receivable.

(Continued)

As of December 31, 2020 and 2019, the Company did not provide any notes and accounts receivable as collateral.

(d) Other receivables (including related parties)

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Other receivables | $ 8,585 | 17,268 |
| Other receivables-related parties | - | 27,301 |
| Other receivables-loans to subsidiaries | - | 59,960 |
| Less: Loss allowance | (2,820) | (10,000) |
| | **$ 5,765** | **94,529** |

On August 10, 2016, the Company signed the contract with Taiwan Development Institute (TDI) to establish the industry-university research and development center, and paid the guarantee of the contract $10,000 on August 16, 2016. However, the Company was unable to obtain a factory license due to the insufficient weight bearing of the building and the inability to improve the problem significantly. The Company officially issued a letter to suspend the contract on March 6, 2017 and issued a payment order to the TDI in June 2017. However, TDI objected to pay the order during the statutory period. Therefore, the case entered into the litigation stage. The case was pronounced on November 7, 2018 and the Company lost the lawsuit. The Company assessed the possibility of recovery based on conservative principles and decided to propose impairment losses for all unreceived amount.

On July 31, 2019 the Company and TDI conducted mediation with the Civil Mediation Division of the Taichung Branch of the Taiwan High Court, TDI was willing to return $3,000. As of the reporting date, $2,820 has not been received, The rest of $7,000 has been written off because it can not be recovered.

As of December 31, 2020 and 2019, the Company did not provide any other receivables as collateral.

(e) Inventories

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Finished goods | $ 18,416 | 25,227 |
| Work in progress (including external warehouse) | 74,774 | 98,540 |
| Raw materials | 23,494 | 21,150 |
| | **$ 116,684** | **144,917** |

In 2020, the cost of goods sold and expense of inventories amounted to $790,579 (2019: $652,380). The Company reversed its allowance for inventory valuation loss amounting to $23,290 due to the sale and disposal of its obsolete inventories in 2020. The write-down of inventories to net realizable value amounted to $28,851 in 2019. The writedowns and reversals are included in operating cost. The loss on scrapping of inventory amounted to $33,095 in 2020 (2019: $4,274).

In 2020, the Company's unallocated overhead amounted to $80,952 in 2020 (2019: $12,315), which has been reported as cost of goods sold.

(Continued)

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

As of December 31, 2020 and 2019, the Company did not provide any inventories as collateral.

(f) Investments accounted for using equity method

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Subsidiary | $ 1,151,014 | 659,812 |

(i) Please refer to the consolidated financial statements.

(ii) In 2020 and 2019, the Company participated in capital increase of Eterge Opto- Electronics Co,.Ltd. (ETERGE) for $88,060 and $15,400, respectively, wherein the Company invested unproportionally to its previous percentage of ownership, resulting in its shareholding to decrease from 74% to 68.45% and 100% to 74%, respectively. The difference from the changes in percentage of ownership were reflected by increasing the capital surplus – changes in ownership interests in subsidiaries by $3,377 and $9,843, respectively.

(iii) In response to the expanding capital demand of Dongguan JMO Optical Co. Ltd. (JMO), the Company participated in capital increase of Dongguan JMO Optical Co. Ltd. for $149,851 and $90,163 in 2020 and 2019, respectively, through CHENG TIAN Photoelectric Technology (CHENG TIAN).

(iv) The Company's investments accounted for using equity method were not in pledge guarantee on December 31, 2020 and 2019.

(g) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Company for the years ended December 31, 2020 and 2019, were as follows:

| | Land | Buildings and structures | Machinery and equipment | Office equipment and other facilities | Construction in progress and testing equip | Total |
|---|---|---|---|---|---|---|
| **Cost or deemed cost:** | | | | | | |
| Balance on January 1, 2020 | $ 268,000 | 255,583 | 660,820 | 23,280 | 16,097 | 1,223,780 |
| Additions | - | 2,807 | 94,607 | 2,629 | 4,685 | 104,728 |
| Disposals | - | - | (13,153) | (170) | - | (13,323) |
| Transformations | - | 880 | 39,793 | 1,224 | (13,897) | 28,000 |
| Balance on December 31, 2020 | **$ 268,000** | **259,270** | **782,067** | **26,963** | **6,885** | **1,343,185** |
| Balance on January 1, 2019 | $ 268,000 | 239,132 | 409,034 | 22,152 | 128,343 | 1,066,661 |
| Additions | - | 5,437 | 142,642 | 1,153 | 16,097 | 165,329 |
| Disposals | - | - | (14,227) | (25) | - | (14,252) |
| Transformations | - | 11,014 | 123,371 | - | (128,343) | 6,042 |
| Balance on December 31, 2019 | **$ 268,000** | **255,583** | **660,820** | **23,280** | **16,097** | **1,223,780** |

(Continued)

# ZHONG YANG TECHNOLOGY CO., LTD.
## Notes to Financial Statements

| | | Land | Buildings and structures | Machinery and equipment | Office equipment and other facilities | Construction in progress and testing equip | Total |
|---|---|---|---|---|---|---|---|
| **Depreciation and impairments loss:** | | | | | | | |
| Balance on January 1, 2020 | $ | - | 47,607 | 127,390 | 8,733 | - | 183,730 |
| Depreciation | | - | 29,528 | 94,977 | 4,995 | - | 129,500 |
| Disposals | | - | - | (4,460) | (166) | - | (4,626) |
| Balance on December 31, 2020 | **$** | **-** | **77,135** | **217,907** | **13,562** | **-** | **308,604** |
| Balance on January 1, 2019 | $ | - | 19,423 | 59,147 | 4,113 | - | 82,683 |
| Depreciation | | - | 28,184 | 70,835 | 4,637 | - | 103,656 |
| Disposals | | - | - | (2,592) | (17) | - | (2,609) |
| Balance on December 31, 2019 | **$** | **-** | **47,607** | **127,390** | **8,733** | **-** | **183,730** |
| **Carrying amounts:** | | | | | | | |
| Balance on December 31, 2020 | **$** | **268,000** | **182,135** | **564,160** | **13,401** | **6,885** | **1,034,581** |
| Balance on December 31, 2019 | **$** | **268,000** | **207,976** | **533,430** | **14,547** | **16,097** | **1,040,050** |

The Board of Directors approved the Company on November 11,2020, to purchase Land No.469 and 478 on Yanhe Rd., Changhua City for expanding capacity. The Company paid $77,760 for the contract and other related costs, which was recognized in other non-current assets in December 31,2020. The Company had paid in full and had completed the registration of ownership transferring in January,2021.

As of December 31, 2020 and 2019, the aforementioned property, plant and equipment of the Company had been pledged as collateral for long-term borrowings and guaranteed convertible corporate bonds; please refer to note 8.

(h) Right-of-use assets

The Company leases many assets including office, factory facilities and warehouse. Information about leases for which the Company as a lessee is presented below:

| | | Buildings |
|---|---|---|
| The cost of right-of-use assets: | | |
| Balance on January 1, 2020 | $ | 58,815 |
| Additions | | 65,922 |
| Disposal | | (58,815) |
| Balance on December 31, 2020 | **$** | **65,922** |
| Balance on January 1, 2019 | $ | 9,765 |
| Additions | | 58,815 |
| Disposals | | (9,765) |
| Balance on December 31, 2019 | **$** | **58,815** |

| | | Buildings |
|---|---|---|
| Depreciation and impairment loss: | | |
| Balance on January 1, 2020 | $ | 490 |
| Depreciation for the period | | 7,039 |
| Disposal | | (5,881) |
| Balance on December 31, 2020 | $ | 1,648 |
| Balance on January 1, 2019 | $ | - |
| Depreciation for the period | | 2,265 |
| Disposal | | (1,775) |
| Balance on December 31, 2019 | $ | 490 |
| Carrying amount: | | |
| Balance on December 31, 2020 | $ | 64,274 |
| Balance on December 31, 2019 | | 58,325 |

(i) Short-term borrowings

The short-term borrowings of the Company were as follows:

| | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Unsecured bank loans | $ | 160,000 | 430,000 |
| Secured bank loans | | - | 80,000 |
| Total | $ | 160,000 | 510,000 |
| Unused short-term credit lines | $ | 615,120 | 490,000 |
| Range of interest rates | | 0.95%~1.48% | 1%~1.48% |

(i) For the collateral for short-term borrowings; please refer to note 8.

(ii) The main management of the Company was the joint guarantor of short-term borrowings; please refer to note 7.

(j) Long-term borrowings

The conditions of long-term borrowings of the Company were as follows:

| | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Unsecured bank loans | $ | 129,720 | 153,930 |
| Secured bank loans | | 57,780 | - |
| Less: current portion | | - | (75,000) |
| Less: deferred profit | | (2,686) | - |
| Total | $ | 184,814 | 78,930 |
| Unused credit lines | $ | 521,500 | 499,820 |
| Range of interest rates | | 0.7%-1.45% | 0.7%~1.6% |
| Expiration date | | 111.10~114.2 | 109.01~113.09 |

(Continued)

(i) In order to purchase equipment for production and support the medium-term working capital, the Company obtained a low interest loan amount of $200,000 from Bank SinoPac (credit lines were not allowed to be used cyclically), with maturity in September 2024, in accordance with "Action Plan for Welcoming Overseas Taiwanese Business to Return to Invest in Taiwan ("Welcome Back Action Plan")." As of December 31,2020 and 2019, the Company had used the credit amount of $99,720 and $30,180, respectively. The loan was recognized and measured by 1.2% of market rates, and the 0.7% of margin interests between the actual rates and market rates were recognized as deferred income (the non-current liabilities), based on Government grants.

(ii) In order to purchase equipment for production and support the medium-term working capital, the Company obtained a lower interest loan amount of $360,000 from Chang Hwa Commercial Bank (credit lines were not allowed to be used cyclically), with maturity in February 2025, accordance with "Welcome Back Action Plan". As of December 31,2020 and 2019, the Group had used the credit amount of $87,780 and $30,000, respectively. The loan was recognized and measured by 1.2% of market rates, and the 0.7% of margin interests between the actual rates and market rates were recognized as deferred income (the non-current liabilities), based on Government grants.

(iii) In order to expand capacity and the medium-term working capital, in accordance with "Welcome Back Action Plan," the Group obtained a lower interest loan amount of $149,000 from Bank SinoPac (credit lines were not allowed to be used cyclically). As of December 31,2020, the Group has not used the credit amount.

(iv) For the information of collaterals for long-term borrowings; please refer to note 8.

(v) The main management of the Group was the joint guarantor of long-term borrowings; please refer to note 7.

(k) Bond payable

The Company issued the first domestic secured convertible bonds and the second unsecured convertible bonds in January 2, 2020 and January 3, 2020, respectively. The information of issuance amount were as follows:

The details of convertible bonds were as follows:

| | December 31, 2020 |
|---|---|
| Unsecured convertible bonds | $ 250,000 |
| Secured convertible bonds | 400,000 |
| Unamortized discounts on bonds payable | (16,522) |
| Total | **$ 633,478** |
| Embedded derivatives- put options (recorded as financial liabilities at fair value through profit or loss-non-current) | **$ 1,955** |
| Equity component-conversion options (recorded as capital surplus-conversion options) | **$ 23,321** |

(Continued)

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

| | | 2020 |
|---|---|---|
| Embedded derivative-gains or losses resulting from put options at fair value (recorded as other profit or loss, net) | $ | **(1,649)** |
| Interest expense | $ | **(8,085)** |

The Group separated conversion options from liabilities, and recognized as equity and liabilities. The related information were as follows:

(i) Secured convertible bonds

| | | The first |
|---|---|---|
| The compound interest present value | $ | 391,320 |
| The embedded derivative equity | | (360) |
| The equity components | | 13,040 |
| Total convertible bonds issued | **$** | **404,000** |

The equity components were accounted for as capital surplus-conversion options. In accordance with IFRSs, the issuance cost of the first domestic secured convertible bonds was allocated at $85 thousand to the capital surplus-conversion options.

The significant terms of the first convertible bonds were as follows:

1) Duration: There years (from January 2, 2020 to January 2, 2023).

2) Coupon rate:0%.

3) Redemption at the option of the Company: The Company may redeem the bonds under the following circumstances:

   a) Within the period between three months after the issuance date and 40 days before the last convertible date, if the closing price of the Company's common shares on the TSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, the Company may redeem all bonds at par value.

   b) Within the period between three months after the issuance date and 40 days before the last convertible date, if the event that at least 90% of the principal amount of the bonds originally outstanding has been redeemed, repurchased or converted, the Company may redeem all bonds at par value.

4) Redemption at the option of bondholders:

   The bondholders have the right to request the Company to repurchase the bonds at par value after the issuance date two years later.

(Continued)

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

5) Terms of conversion:

   a) Bondholders may opt to have the bonds converted into the common stock of the Company from April 3, 2020 to January 2, 2023.

   b) Conversion price: is NT$86.8 per share upon issuance. The Company paid cash dividend from capital surplus in 2020; therefore, conversion price has been adjusted to NT$85.8 per share.

6) The Company used assets as collateral to issue corporate bonds, the guarantee circumstance Please refer to note (8).

(ii) Unsecured convertible bonds

| | The second |
|---|---|
| The compound interest present value | $ 239,100 |
| The embedded derivative equity | 675 |
| The equity components | 10,475 |
| Total convertible bonds issued | **$ 250,250** |

The equity components were accounted for as capital surplusconversion options. In accordance with IFRSs, the issuance cost of the second domestic unsecured convertible bonds was allocated at $109 to the capital surplusconversion options.

The significant terms of the second convertible bonds were as follows:

1) Duration: There years (from January 3, 2020 to January 3, 2023).

2) ICoupon rate: 0%.

3) Redemption at the option of the Company: The Company may redeem the bonds under the following circumstances:

   a) Within the period between three months after the issuance date and 40 days before the last convertible date, if the closing price of the Company's common shares on the TSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, the Company may redeem all bonds at par value.

   b) Within the period between three months after the issuance date and 40 days before the last convertible date, if the event that at least 90% of the principal amount of the bonds originally outstanding has been redeemed, repurchased or converted, the Company may redeem all bonds at par value.

4) Redemption at the option of bondholders:

   The bondholders have the right to request the Company to repurchase the bonds at 101% of par value (annual puttable return: 0.5%) after issue two years.

(Continued)

5) Terms of conversion:

a) Bondholders may opt to have the bonds converted into the common stock of the Company from April 4, 2020 to January 3, 2023.

b) Conversion price is determined as NT$85.8 per share. The Company paid cash dividend from capital surplus in 2020; therefore, the conversion price has been adjusted to NT$84.8 per share.

(l) Lease liabilities

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Current | $ 6,106 | 5,126 |
| Non-current | $ 59,483 | 53,265 |

For the maturity analysis, please refer to note 6(u) financial instruments.

The amounts recognized in profit or loss were as follows:

| | 2020 | 2019 |
|---|---|---|
| Interest on lease liabilities | $ 1,062 | 227 |
| Expenses relating to short-term leases or low-value leases | $ 592 | 5,023 |

The amounts recognized in the statement of cash flows for the Company was as follows:

| | 2020 | 2019 |
|---|---|---|
| Total cash outflow for leases | $ 6,682 | 7,383 |

The Company leases buildings as factory and office for a period of 10 years.

(m) Employee benefits

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

The pension costs of the Company incurred from the contributions to the Bureau of the Labor Insurance amounted to $9,974 and $8,784 for the years ended December 31, 2020 and 2019, respectively.

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(n) Income taxes

(i) Income tax expense

The components of income tax in the years 2020 and 2019 were as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Current tax expense | | | |
| Current period | $ | - | 4,758 |
| 10% surtax on unappropriated earnings | | 2,300 | - |
| Adjustment for prior periods | | (8,714) | 730 |
| | | (6,414) | 5,488 |
| Deferred tax expense | | | |
| Change in unrecognized deductible temporary differences | | 38,835 | (10,443) |
| | | 38,835 | (10,443) |
| Income tax expense (profit) | **$** | **32,421** | **(4,955)** |

The amount of income tax recognized in other comprehensive income for 2020 and 2019 was as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation | **$** | **9,591** | **(5,292)** |

Reconciliation of income tax and profit before tax for 2020 and 2019 is as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Profit excluding income tax | $ | 158,150 | 114,130 |
| Income tax using the Company's domestic tax rate | | 31,630 | 22,826 |
| Current-year losses for which no deferred tax asset was recognized | | 17,583 | - |
| Change in unrecognized temporary differences | | (11,488) | (29,002) |
| Change in provision in prior periods | | (8,714) | 730 |
| 10% surtax on unappropriated earnings | | 2,300 | - |
| Others | | 1,110 | 491 |
| | **$** | **32,421** | **(4,955)** |

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

The consolidated entity is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2020 and 2019. Also, management considers it probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details are as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Aggregate amount of temporary differences related to investments in subsidiaries | **$ 372,422** | **177,072** |
| Unrecognized deferred tax liabilities | **$ 74,484** | **35,414** |

2) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Tax effect of deductible temporary dfferences | $ 27,582 | - |
| The carry forward of unused losses | 17,583 | - |
| | **$ 45,165** | **-** |

The Income Tax Law of the Republic of China allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. These items are not recognized as deferred income tax assets because the Company is not likely to have sufficient taxable income for the temporary difference in the future.

As of December 31, 2020, the information of the Company’s unused tax losses for which no deferred tax assets were recognized are as follows:

| Year of loss | Unused tax loss | Expiry date |
|---|---|---|
| 2020 (estimated) | **$ 87,913** | 2030 |

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**Notes to Financial Statements**

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2020 and 2019 were as follows:

| | Unrealized exchange gains | Investment income recognized under the equity method | Total |
|---|---|---|---|
| **Deferred Tax Liabilities:** | | | |
| Balance at January 1, 2020 | $ - | 24,861 | 24,861 |
| Recognized in profit or loss | - | 7,061 | 7,061 |
| Balance at December 31, 2020 | **$ -** | **31,922** | **31,922** |
| Balance at January 1, 2019 | $ 1,135 | 24,861 | 25,996 |
| Recognized in profit or loss | (1,135) | - | (1,135) |
| Balance at December 31, 2019 | **$ -** | **24,861** | **24,861** |

| | Unearned gross profits | Exchange differences on translation | Others | Total |
|---|---|---|---|---|
| **Deferred Tax Assets:** | | | | |
| Balance at January 1, 2020 | $ 6,069 | 9,591 | 7,853 | 41,365 |
| Recognized in profit or loss | (6,069) | - | (7,853) | (31,774) |
| Recognized in other comprehensive income | - | (9,591) | - | (9,591) |
| Balance at January 1, 2019 | $ 5,167 | 4,299 | 4,985 | 26,765 |
| Recognized in profit or loss | 902 | - | 2,868 | 9,308 |
| Recognized in other comprehensive income | - | 5,292 | - | 5,292 |
| Balance at December 31, 2019 | **$ 6,069** | **9,591** | **7,853** | **41,365** |

(iii) Assessment of tax

The Company's tax returns for the years through 2018 were assessed by the National Tax Administration.

(o) Capital and other equity

As of December 31, 2020 and 2019, the number of authorized ordinary shares were 100,000 thousand shares with par value of $10 per share. The total value of authorized ordinary shares was amounted to $100,000. As of that date, 68,340 thousand shares (2019: 68,393 thousand shares) of ordinary shares were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2020 and 2019 was as follows:

| (in thousands of shares) | 2020 | 2019 |
|---|---|---|
| Balance on January 1 | $ 68,393 | 68,437 |
| Restricted employee shares (cancelled) | (53) | (44) |
| Balance on December 31 | $ 68,340 | 68,393 |

(i) Ordinary shares

A resolution of the issuance of the new restricted employee shares was approved by the Board of Directors on March 21, 2018, issuing 400 thousand ordinary shares at $35 per share with a par value of $10 per share. The statutory registration procedures had been completed. Due to the resignation of employees, the Company cancelled and unvested 53 thousand shares and 44 thousand shares of new restricted employee shares in 2019 and 2018, respectively. Please refer to Note 6(p) for information about new restricted employee shares.

(ii) Capital surplus

The balances of capital surplus were as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Share capital | $ 715,941 | 770,635 |
| Cash issuance of share reserved for employee subscription | 12,745 | 11,877 |
| Recognition of changes in ownership interests in subsidiaries | 17,473 | 11,766 |
| Employee share options | 7,305 | 6,246 |
| Restricted employee shares | 16,112 | 19,832 |
| Convertible bond-conversion options | 23,321 | - |
| | $ 792,897 | 820,356 |

The Company's Board of Directors held on March 17, 2020, decided to distribute the cash dividend of $54,694 (representing $0.8 New Taiwan dollars per share), by using the additional paid-in capital.

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**Notes to Financial Statements**

(iii) Retained earnings

Based on the Company’s Articles of Incorporation amended on June 21, 2019, if there is any profit after closing of books in a given year, the Company shall first defray tax due, cover accumulated losses and set aside ten percent of it as legal reserve and then set aside or reverse a special reserve in accordance with laws and regulations. The remaining profit, together with the beginning balance of undistributed retained earnings by new shares, can be distributed according to the distribution plan proposed by the Board of Directors to be submitted to during the shareholders’ meeting for approval. However, the distribution of earnings or legal reserve and capital surplus, distributed by way of cash, shall be decided during the board meeting, approved by more than half of the directors, with two thirds of the directors in attendance; thereafter, to be reported in the shareholders’ meeting of the Company .

The Company is in the growth stage. Based on capital expenditures, business expansion needs and sound financial planning for sustainable development, the dividend policy of the Company is in line with the Company's profitability, capital structure and future operational needs. Dividends distributed to shareholders will not less than 20% of the distributable surplus each year. However, if the accumulated distributable surplus is less than 40% of share capital, it will not be distributed; the principle of distributing dividends to shareholders is that stock dividends is combined with cash dividends, and the distribution of cash dividends will not less than 30% of the total dividends to be distributed.

1) Legal reserve

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

2) Earnings distribution

Earnings distribution for 2019 and 2018 was approved by the Board of Directors on March 17, 2020.and was approved by the shareholders during their annual meeting held on June 21, 2019, respectively. The relevant dividend distributions to shareholders were as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Distribution rate (dollar)** | **Amount** | **Distribution rate (dollar)** | **Amount** |
| Dividends distributed to ordinary shareholders | | | | |
| Cash | $ **-** | **-** | **1.00** | **68,417** |

(p) Share-based payment

(i) Employee stock options

Based on a resolution at the Board of Directors on May 9, 2018, the Company decided to issue 1,000 thousand shares of employee stock options on the grant date to those full-time employees of the Company or its domestic and foreign subsidiaries (the Company directly or indirectly holds more than 50% of its equity). The employee stock options have been registered and approved by the Securities and Futures Bureau of the FSC.

The employees who receive the stock options can exercise 100% of stock options after holding for two years. The exercisable duration of the option is five years. The outstanding options are deemed to be waiver of the right to exercise after the expiration date. The employees who hold the options are not able to claim the right to exercise. No transference, pledge or donation is allowed to except for inheritance. If the employees violate the labor contract, working rules and other significant negligence, the Company has the right to recall and cancel the options for which without the exercise right.

The details of the employee stock options were as follow:

| | **2020** | | **2019** | |
|---|---|---|---|---|
| **(in thousand shares)** | **Weighted average of performance price** | **Number of share option** | **Weighted average of performance price** | **Number of share option** |
| Outstanding shares on January 1 | 100.01 | 809 | 100.01 | 937 |
| Shares forfeited in the current period | 100.01 | (147) | 100.01 | (128) |
| Shares exercised in the current period | | - | - | - |
| Shares expired in the current period | | - | - | - |
| Outstanding shares on 31 December | 100.01 | **662** | 100.01 | **809** |
| Exercisable shares on December 31 | | **-** | | **-** |

The Company adopted the Black-Scholes model to compute the fair value of share-based payment on the grant date, and the input parameters of this model are as follows:

| | **2018** |
|---|---|
| | **Employee stock options** |
| Fair value on grant date | $ 13.88 |
| Market price on grant date | $ 81.03 |
| Exercise price | $ 106 |
| Expected volatility | 34.82% |
| Expected life of the option | 3.5 years |
| Expected dividend | - |
| Risk-free interest rate | 0.65% |

(Continued)

Expected volatility is based on the historical volatility of the same industry; the expected life of the options is based on the Company's issuance methods; the expected dividends and risk-free interest rate are based on government bonds.

The expense recognized by the Company in 2020 and 2019 due to the employee stock options were $1,059 and $4,164, respectively.

(ii) New restricted employee shares

Based on a resolution at the annual shareholders' meeting on June 21, 2018, the Company decided to issue 400 thousand new restricted employee shares to those full-time employees of the Company on the grant date. The restricted shares have been registered and approved by the Securities and Futures Bureau of the FSC. The grant date of the new restricted employee shares was August 1, 2018.

These employees with the restricted share awards are entitled to purchase the Company's stocks at the price of $35 per share. When these employees continue to provide service to the Company for at least 1 year, 2 years, 3 years, 4 years and 5 years from the grant date, their most recent performance grades reach to 85 and above and the sales revenue of the Company reach that year's target, 20% of the issued restricted shares will be vested in each year. The restricted shares are kept by the trust immediately after issuance. Stock dividends and cash dividends obtained for holding restricted shares are also required to be kept by the trust before the vested conditions. If these employees do not meet the vesting conditions, the Company will repurchase all the unvested shares at the issue price. These employees are entitled to acquire stock and cash dividends during the vesting period even if these employees will not meet the vesting conditions.

The details of the new restricted employee shares were as follows:

| **(in thousand shares)** | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Outstanding shares on 1 January | 279 | 395 |
| Shares vested in the current period | (59) | (72) |
| Shares forfeited in the current period | (53) | (44) |
| Outstanding shares on 31 December | **167** | **279** |

The expenses recognized by the Company in 2020 and 2019 due to the new restricted employee shares were $1,946 and $5,991, respectively.

(iii) Cash capital increase reserved for employee subscription

The Board of Directors meeting of the subsidiary, ETERGE, was held on July 13,2020, which decided to increase the capital by cash. ETERGE reserved the subscription right for parent company's employees. The Company recognized the salary cost amounting to $868.

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

(q) Earnings per share

The Company's basic and diluted earnings per share were calculated as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| **Basic earnings per share:** | | | |
| Profit attributable to ordinary shareholders of the Company | $ | **125,729** | **119,085** |
| Weighted-average number of ordinary shares (thousand shares) | | **68,133** | **68,065** |
| Basic earnings per share | $ | **1.85** | **1.75** |
| **Diluted earnings per share:** | | | |
| Profit attributable to ordinary of the Company (basic) | | 125,729 | 119,085 |
| Effect of dilution | | | |
| Convertible Bond | | 9,734 | - |
| Profit attributable to ordinary shareholders of the Company (diluted) | $ | **135,463** | **119,085** |
| Weighted average number of ordinary shares (basic) | | 68,133 | 68,065 |
| Effect of dilution (thousand shares) | | | |
| Effective of changing convertible dilution | | 7,610 | - |
| Non-vested employee restricted stock | | 22 | 48 |
| Effect of employee stock compensation | | 288 | 124 |
| Weighted average number of ordinary shares (diluted) (thousand shares) | | **76,053** | **68,237** |
| Diluted earnings per share | $ | **1.78** | **1.75** |

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

| | | 2020 | 2019 |
|---|---|---|---|
| Primary geographical markets | | | |
| China | $ | 457,393 | 391,196 |
| Korea | | 383,237 | 362,961 |
| Taiwan | | 167,849 | 115,867 |
| Other countries | | 13,263 | 20,124 |
| | $ | **1,021,742** | **890,148** |
| Primary products: | | | |
| Mold (including mold base and core) | $ | 693,643 | 662,762 |
| Other | | 328,099 | 227,386 |
| | $ | **1,021,742** | **890,148** |

(Continued)

(ii) Contract balances

| | December 31, 2020 | December 31, 2019 | January 1, 2019 |
|---|---|---|---|
| Notes and accounts receivable (including related parties) | $ 356,310 | 398,379 | 361,492 |
| Less: allowance for impairment | (19,822) | (13,598) | (15,326) |
| Total | **$ 336,488** | **384,781** | **346,166** |
| Contract liabilities (unearned revenue) | **$ 36,056** | **19,419** | **6,100** |

For details on notes and accounts receivable and allowance for impairment, please refer to note 6(c).

The amount of revenue recognized for the years ended December 31, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were $16,264 and $6,100, respectively.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(s) Employee compensation and directors' and supervisors' remuneration

In accordance with the Articles of Incorporation, the Company should contribute no less than 2% of the profit as employee compensation and less than 2% as directors’ and supervisors’ remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2020 and 2019, the remunerations to employees amounted to $13,542 and $10,000, and the remunerations to directors amounted to $2,500 and $2,500. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder’ meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. Shares distributed to employees as employees’ remuneration are calculated based on the closing price of the Company’s shares on the day before the approval by the Board of Directors. The above-mentioned amount of remuneration to employees and directors are no different from the estimated amount of the 2020 and 2019 consolidated financial statement. Related information would be available at the Market Observation Post System website.

(t) Other non-current liabilities

In order to repay bank loans and purchase machinery and equipment, a resolution was decided during the board meeting held on November 7, 2019 for the Company to issue its first domestic guaranteed convertible corporate bond and second domestic unsecured convertible corporate bond.

The Company issued 4,000 three-year guaranteed convertible corporate bonds, each having a nominal value of $100,000 per denomination, at a total amount of $400 million, and an issuance rate of 101% with the issuance date set on January 2, 2020. As of December 31, 2019, the amount of the convertible corporate bonds received in advance was $404,000, which was recognized as other non-current liabilities.

(u) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

To minimize credit risk, the Company periodically evaluates financial status of the customers and the possibility of collecting receivables. Besides, the Company monitors and reviews the recoverable amount of the receivables to ensure the uncollectible amount are recognized appropriately as loss allowance. As of 2020, 80% and 82%, respectively, of notes and accounts receivable were four major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

For credit risk exposure of notes and accounts receivables, please refer to note 6(c). Other receivables at amortized cost, for the details of the loss allowance for impairment at 2020 and 2019, please refer to Note 6(d).

Other financial assets at amortized cost includes cash and cash equivalents, other receivables, restricted assets (recorded as other non-current assets) and guarantee deposits. All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).

(Continued)

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(ii) Liquidity risk

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

| | Carrying amount | Contractual cash flows | Within one year | 1~2 years | 2~5 years | Over 5 years |
|---|---|---|---|---|---|---|
| **December 31, 2020** | | | | | | |
| Non-derivative financial liabilities: | | | | | | |
| Short-term borrowings | $ 160,000 | (160,000) | (160,000) | - | - | - |
| Notes and accounts payable (including related parties) | 79,934 | (79,934) | (79,934) | - | - | - |
| Others payables | 132,177 | (132,177) | (132,177) | - | - | - |
| Long-term borrowings (including current portion) | 184,814 | (187,500) | - | (16,215) | (171,285) | - |
| Lease liabilities (including current and non-current portion) | 65,589 | (70,803) | (7,086) | (7,086) | (21,576) | (35,055) |
| Financial assets at fair value through profit or loss – non-current | 1,955 | - | - | - | - | - |
| Bonds payable | 633,478 | (652,500) | - | - | (652,500) | - |
| | **$ 1,257,947** | **(1,282,914)** | **(379,197)** | **(23,301)** | **(845,361)** | **(35,055)** |
| **December 31, 2019** | | | | | | |
| Non-derivative financial liabilities | | | | | | |
| Short-term borrowings | $ 510,000 | (510,000) | (510,000) | - | - | - |
| Notes and accounts payable (including related parties) | 36,546 | (36,546) | (36,546) | - | - | - |
| Other payables | 115,110 | (115,110) | (115,110) | - | - | - |
| Long-term borrowings (including current portion) | 153,930 | (153,930) | (75,000) | (18,750) | (60,180) | - |
| Lease liabilities (including current and non-current portion) | 58,391 | (63,191) | (6,000) | (6,000) | (18,625) | (32,566) |
| | **$ 873,977** | **(878,777)** | **(742,656)** | **(24,750)** | **(78,805)** | **(32,566)** |

Except for some long-term borrowings repaid in advance , the Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

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(iii) Currency risk

1) Exposure to foreign currency risk

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

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | $ 23,690 | USD/TWD =28.48 | 674,691 | 23,905 | USD/TWD =29.98 | 716,672 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| USD | $ 2,021 | USD/TWD =28.48 | 57,558 | 971 | USD/TWD =29.98 | 29,111 |

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, accounts payable, and other payables that are denominated in foreign currency. A strengthening (weakening) of 5% of the TWD against the USD as at December 31, 2020 and 2019, would have increased (decreased) the profit before income tax, were as follow:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| USD (against the TWD) | | |
| Strengthening of 5% | $ 30,857 | 34,378 |
| Weakening of 5% | (30,857) | (34,378) |

3) Foreign exchange gain and loss on monetary items

Since the Company has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2020 and 2019, foreign exchange gain (loss) (including realized and unrealized portions) amounted to $(35,345) and $(16,806), respectively.

(iv) Interest rate analysis

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

Interest rate exposure of the Company's financial assets and liabilities were as follows:

| | | Book value | |
|---|---|---|---|
| | | **December 31, 2020** | **December 31, 2019** |
| Instruments with fixed interest rate: | | | |
| Financial assets | $ | 56,960 | 59,960 |
| Financial | | (184,814) | - |
| | $ | **(127,854)** | **59,960** |
| Instruments with variable interest rate: | | | |
| Financial assets | $ | 330,533 | 547,693 |
| Financial liabilities | | (160,000) | (663,930) |
| | $ | **170,533** | **(116,237)** |

The following sensitivity analysis is based on the exposure to the interest rate risk of non-derivative financial instruments on the reporting date. Regarding assets and liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1 basis point when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 1 basis point, the Company's profit before income tax would have increased or decreased by $426 and $291 for the 2020 and 2019, respectively, with all other variable factors remaining constant. This is mainly due to the Company's demand deposits and borrowings with variable interest rate.

(v) Fair value of financial instruments - fair value hierarchy

1) The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

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## Notes to Financial Statements

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | Book Value | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at amortized cost:** | | | | | |
| Cash and cash equivalents | $ 388,203 | - | - | - | - |
| Notes and accounts receivable (including related parties) | 336,488 | - | - | - | - |
| Other receivables (including related parties) | 5,765 | - | - | - | - |
| Restricted assets (recorded as other non-current assets) | 65,504 | - | - | - | - |
| Guarantee deposits | 2,250 | - | - | - | - |
| Total | **$ 798,210** | | | | |
| Total non-current financial liabilities at fair value through profit or loss | | | | | |
| Convertible bonds-Embedded derivatives | $ 1,955 | - | - | 1,955 | 1,955 |
| **Financial liabilities measured at amortized cost:** | | | | | |
| Short-term borrowings | $ 160,000 | - | - | - | - |
| Notes and accounts payable (including related parties) | 79,934 | - | - | - | - |
| Other payables | 132,117 | - | - | - | - |
| Long-term borrowings (including current portion) | 184,814 | - | - | - | - |
| Lease liability (current and non-current) | 65,589 | - | - | - | - |
| Bonds payable | 633,478 | - | - | - | - |
| Total | **$ 1,257,887** | | | | |

| | December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | Book Value | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at amortized cost:** | | | | | |
| Cash and cash equivalents | $ 608,574 | - | - | - | - |
| Notes and accounts receivable (including related parties) | 384,781 | - | - | - | - |
| Other receivables (including related parties) | 94,529 | - | - | - | - |
| Restricted assets (recorded as other non-current assets) | 77,957 | - | - | - | - |
| Guarantee deposits | 1,575 | - | - | - | - |
| Total | **$ 1,167,416** | | | | |
| **Financial liabilities measured at amortized cost:** | | | | | |
| Short-term borrowings | $ 510,000 | - | - | - | - |
| Notes and accounts payable (including related parties) | 36,546 | - | - | - | - |
| Other payables | 115,110 | - | - | - | - |
| Long-term borrowings (including current portion) | 153,930 | - | - | - | - |
| Lease liabilities (current and non-current) | 58,391 | - | - | - | - |
| Total | **$ 873,977** | | | | |

(Continued)

**ZHONG YANG TECHNOLOGY CO., LTD.**
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2) Fair value evaluation technique of financial instruments not measured at fair value

The Company estimates financial instruments that not measured at fair value by methods and assumption as follows:

a) The par value of financial assets and liabilities measured at amortized cost in consolidated financial statements is close to the fair value

3) Fair value evaluation technique of financial instruments followed by fair value

The fair value of derivatives was priced using public quotation. When the public quotation can not be acquired, then using evaluation way to estimate. The usage of evaluation and hypothesis was referred to the quotation information from Financial institution or Binominal options pricing model which accepted by widely market users.

4) There was no transfer from one level to another in 2020 and 2019.

5) The change in level 3 at fair value in the years ended December 31, 2020, were as follows:

| | **Financial liabilities at fair value through profit or loss-Components of Convertible bonds** |
|---|---|
| Balance on January 1, 2020 | $ - |
| Total gains and losses on issuing convertible bonds | 306 |
| Total gains and losses: | |
| Recognized in loss | 1,649 |
| Balance on December 31, 2020 | **$ 1,955** |

For the years ended December 31, 2020, total gains and losses that were included in “other gains and losses, net.

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6) The quantified information for significant unobservable inputs (level 3) used in fair value measurement

The Company' s financial instruments that use level 3 input to measure fair values include financial liabilities at fair value through profit or loss— Components of Convertible bonds.

The quantified information for significant unobservable inputs was as follows:

| Item | Valuation technique | Significant unobservable inputs | Inter-relationships between significant unobservable inputs and fair value |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss— Redemption /put right of Convertible bonds | Binominal options pricing model of convertible bonds | ·fluctuation rate (46.12% in December 31, 2020) | ·The higher fluctuation, the higher fair value is |

7) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Company's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss are as follows:

| | | Move up | Other comprehensive income | |
|---|---|---|---|---|
| | **Input** | **or down** | **Favorable change** | **Unfavorable change** |
| **December 31, 2020** | | | | |
| Financial liabilities at fair value through profit or loss | fluctuation rate | 5% | $ 240 | (320) |

The favorable and unfavorable changes reflect the movement of the fair value, in which the fair value is calculated by using the different unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

(v) Financial risk management

(i) Overview

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

1) Credit risk

2) Liquidity risk

3) Market risk

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

(ii) Structure of risk management

The Company's finance management department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

The Company minimizes the risk exposure through derivative financial instruments. The Board of Directors regulated the use of derivative financial instruments in accordance with the Company's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Company continue with the review of the amount of the risk exposure in accordance with the Company's policies and the risk management policies and procedures. The Company has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investments in debt securities.

1) Accounts receivable and other receivables

The sales target of the Company is significantly concentrated on a small number of customers. In order to reduce the credit risk, the Company continuously evaluates the financial status of the main customers and the actual collection situations, and the Company regularly assesses the possibility of accounts receivable recovery.

The Company does not hold any collateral or other credit enhancement instrument to avoid the credit risk of financial assets.

The Company sets the allowance for bad debt account to reflect the estimated losses for accounts receivables, other receivables, and investments. The allowance for bad debt account consists of specific losses relating to individually significant exposure and the unrecognized losses arising from similar assets groups. The allowance for bad debt account is recognized based on historical collection records of similar financial assets.

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Company's finance department. The Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The Company' s policy is to provide financial guarantees only to wholly owned subsidiaries. At December 31, 2020, the Company did not provide guarantee to subsidiary.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company' s reputation.

(v) Market risk

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

1) Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Company's entities. The currencies used in these transactions are the USD, and JPY.

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Company buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

The Company borrows funds with variable interest rates, which has a risk exposure to changes in interest rates.

3) Other market price risk

The Company is not exposed to equity price risk because it does not hold equity securities.

(w) Capital management

The Company has to maintain sufficient capital to establish and expand production capacity and equipment. As the optical lens and related mold industry are highly affected by the cyclical fluctuations of the business environment, the capital management of the Company is to ensure that the Company has sufficient and necessary financial resources to support the working capital needs, capital expenditures, research and development, dividend payments, and other businesses within the next 12 months.

(x) Investing and financing activities not affecting current cash flow

The Company does not have investing activities which did not affect the current cash flow in the years ended 2020.

Reconciliation of liabilities arising from financing activities were as follows:

| | | | Non-cash changes | | |
|---|---|---|---|---|---|
| | **January 1, 2020** | **Cash flows** | **Acquisition** | **Discount on corporate bonds** | **December 31, 2020** |
| Long-term borrowings | $ 153,930 | 33,570 | (2,686) | - | 184,814 |
| Short-term borrowings | 510,000 | (350,000) | - | - | 160,000 |
| Lease liabilities | 58,391 | (5,028) | 12,226 | - | 65,589 |
| Unearned convertible bonds | 404,000 | - | (404,000) | - | - |
| Bonds payable | - | 245,020 | 404,980 | (16,522) | 633,478 |
| Total liabilities from financing activities | **$ 1,126,321** | **(76,438)** | **10,520** | **(16,522)** | **1,043,881** |

| | | | Non-cash changes | |
|---|---|---|---|---|
| | **January 1, 2019** | **Cash flows** | **Acquisition** | **December 31, 2019** |
| Long-term borrowings | $ 150,000 | 3,930 | - | 153,930 |
| Short-term borrowings | 226,000 | 284,000 | - | 510,000 |
| Lease liabilities | 9,765 | (2,133) | 50,759 | 58,391 |
| Unearned convertible bonds | - | 404,000 | - | 404,000 |
| Total liabilities from financing activities | **$ 385,765** | **689,797** | **50,759** | **1,126,321** |

(Continued)

**(7) Related-party transactions**

(a) Names and relationship with related parties

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

| Name of Related Party | Relationship with the Company |
|---|---|
| JMO | A subsidiary |
| Dongguan City JMOL Optical Co., Ltd. (JMOL) | 〃 |
| Eterge Opto-Electronics Co., Ltd. (ETERGE) | 〃 |
| Hon Hai Precision Industry Co., Ltd. (HON HAI) | An associate |
| WWW (Jin Cheng) Co., Ltd. (WWW) | A subsidiary of Hon Hai |
| Foxconn Global Network Corporation | 〃 |
| Mr. Cheng Cheng Tien | Key management personnel |
| Mr. Lee Jung Chou | 〃 |

(b) Significant transactions with related parties

(i) Sales

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

| | 2020 | 2019 |
|---|---|---|
| Subsidiary-JMO | $ 357,886 | 342,139 |
| Other subsidiaries | 104,292 | 37,669 |
| Associates | 6 | 4,969 |
| | **$ 462,184** | **384,777** |

The credit conditions and sales prices of the above-mentioned related party transactions of the Company were determined in accordance with the agreement of both parties.

(ii) Purchases

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

| | 2020 | 2019 |
|---|---|---|
| Subsidiaries: | | |
| JMOL | $ 112,993 | 66,736 |
| JMO | 141,104 | 190,714 |
| | **$ 254,097** | **257,450** |

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The payment terms and purchase prices of the above-mentioned related party transactions of the Company were determined by the agreement of both parties. The partial purchases from related parties of the Company were recognized as manufacturing expenses and operating expenses.

(iii) Receivables from related parties

The receivables from related parties were as follows:

| Account | Relationship | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Accounts receivable | Subsidiaries: | | |
| | JMO | $ 103,594 | 223,293 |
| | Other subsidiaries | 39,238 | 16,594 |
| | Associates | 63 | 5,932 |
| Less: loss allowance | Associates | - | 2,953 |
| | | $ 142,895 | 242,866 |

(iv) Payables to related parties

The payables to related parties were as follows:

| Account | Relationship | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Accounts payable | Subsidiaries: | | |
| | JMO | $ 26,940 | 19,864 |
| | JMOL | 21,454 | 552 |
| | Other subsidiaries | - | - |
| | Associates | 261 | - |
| | | 48,655 | 20,416 |
| Other payables | Subsidiaries | - | 116 |
| | Associates | - | - |
| | | - | 116 |
| | | $ 48,655 | 20,532 |

The accounts payable listed above were the payables of processing costs to the associates.

(v) Property transactions

1) In 2019, the Company sold equipment to subsidiary JMO amounting to $7,509 with gain on disposal $235. As of December 31, 2019, the outstanding balance was $2,788, listed as other receivables from related parties.

2) In 2020, the Company sold equipment to subsidiary ETERGE amounting to $1,730 with gain on disposal $50, which had been fully paid as of December 31, 2020.

3) In 2020, the Company purchase equipment from subsidiary amounting to $19,073. As of December 31, 2020, the outstanding balance was $1,596, listed as other payable.

4) The Company purchased equipment from its associates in 2020 and 2019, amounting to $3,536 and $5,565, respectively, which had been fully paid as of December 31, 2020.

(vi) Unearned revenue

The associate entrusted the Company to design and manufacture molds and other products, with a prepayment of $5,363 and $184 in 2020 and 2019, recorded as contract liabilities.

(vii) Loans to related parties

The loans to related parties were as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Subsidiary—JMO | $ - | 59,960 |

The Company lent US$2,000 thousand to subsidiary JMO in 2019, which were recorded as other receivables, and the calculated interest at the rate of 3.50% which was based on the contract. The loan was unsecured. Interest income for 2020 and 2019 were $93 and $2,970, respectively. The interest receivable on December 31, 2020, was $2,040, and was listed in other receivables.

(viii) Lease expenses

The Company entered into several one-year lease agreements for its equipment with its affiliated company, Hon Hai Precision, in 2018. The Company selected to apply the exemption recognition requirements instead of recognizing its related right-of-assets and lease liabilities, resulting in the Company to recognize the rental cost amounting to $4,390, which had been fully paid.

(ix) Lease income

The Company leased the office to its subsidiary, ETERGE in 2020 and 2019. The rental income of $2,670 and $1,829 has been received as of December 31, 2020.

(x) Purchase Equipment for Subsidiary

The Company purchased equipment and raw material amounting to $22,473, for its subsidiary JMO. The other receivables on December 31, 2020 was $22,473.

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

(c) Key management personnel compensation

(i) Key management compensation comprised:

| | | 2020 | 2019 |
|---|---|---|---|
| Short-term employee benefits | $ | 20,694 | 17,535 |
| Post-employment benefits | | 535 | 500 |
| Share-based payments | | 1,554 | 2,741 |
| | **$** | **22,783** | **20,776** |

(ii) Guarantee

As of 2019, the main management is the joint guarantors of the long-term and short-term borrowings of the Company.

**(8) Pledged assets**

The carrying values of pledged assets were as follows:

| Pledged assets | Object | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|---|
| Property, plant and equipment | Long-term loans | $ | 67,159 | - |
| Property, plant and equipment | Issue secured bonds guarantee | | 333,719 | 335,833 |
| Other non-current asset–reserve account | Short-term and long-term loans | | - | 12,001 |
| Other non-current assets–time deposits | Guarantees for issuing secured convertible bonds | | 65,504 | 65,956 |
| | | **$** | **466,382** | **413,790** |

**(9) Commitments and contingencies**

(a) Unrecognized contractual commitments:

| | | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| Acquisition of property, plant and equipment | **$** | **314,409** | **14,256** |

(b) Calin Technology Co., Ltd. (Calin) filed a lawsuit to the Taichung District Court against the Company for violating the corporate espionage law due to some of its former employees who are currently working for the Company. The first hearing started in January 2020, and the Company has appointed lawyers to defend its rights to ensure the goodwill of the Company is not infringed. This case is still in progress; hence, it is impossible to reasonably estimate any probable impact.

**(10) Losses Due to Major Disasters: None**

**(11) Subsequent Events:**

(i) The Company's subsidiary in Mainland China-JMO, based on a resolution at the Board of Directors on March 18, 2021, JMO decided to purchase land use rights in Wangniudun Town Dongguan city and expected to participate in bid invitation from the people's government of Wangniudun Town. Using CNY14,000 thousand as maximum to obtain 25.04 acres of land use rights. As of the financial report date, the above operations were still in progress.

(ii) In order to repay bank loans and invest in JMO, which is the subsidiary in mainland China. Based on a resolution at the Board of Directors on March 18, 2021, the Company decided to make a cash capital increase by issuing 10,000 thousand ordinary shares at $ 45 to $ 55 per shares expectably (with a par value of $ 10 per share). For the actual issuance price, the Board of Directors authorizes the chairman of the Board of Directors to negotiate with the underwriters depending on market conditions in accordance with the provisions of Article 6 of the self-regulatory rules for the underwriters and other relevant laws and regulations.

**(12) Other**

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

| By function / By item | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost of Sales** | **Operating Expense** | **Total** | **Cost of Sales** | **Operating Expense** | **Total** |
| Employee benefits | | | | | | |
| Salary | 203,773 | 104,650 | 308,423 | 161,507 | 87,870 | 249,377 |
| Labor and health insurance | 15,869 | 8,492 | 24,361 | 13,467 | 7,268 | 20,735 |
| Pension | 5,671 | 4,303 | 9,974 | 5,045 | 3,739 | 8,784 |
| Remuneration of directors | - | 4,657 | 4,657 | - | 4,451 | 4,451 |
| Others | 9,894 | 4,382 | 14,276 | 8,258 | 3,435 | 11,693 |
| Depreciation | 121,669 | 14,870 | 136,539 | 100,606 | 5,315 | 105,921 |
| Amortization | 444 | 3,621 | 4,065 | 403 | 3,114 | 3,517 |

Additional information on the number of employees and employee benefit in the Company in 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---|---|---|
| The number of employees | 405 | 347 |
| The number of directors (non-employees) | 5 | 5 |
| Average employee benefits | $ 893 | 850 |
| Average salary | $ 771 | 729 |
| Average adjustment of salary | 5.76 % | 2.24 % |

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

The information of the Company’s remuneration (including Directors, Supervisors and Employees) is as follows:

Payments of directors' and supervisors' remuneration are divided into fixed and variable remuneration. Fixed remuneration is monthly payment and travel reimbursement for attending the meetings. Variable remuneration is in accordance with the Company’s Article of Incorporation, if there is any profit after closing of books in a given year, the Company shall first cover the accumulated deficit and set aside not higher than two percent of the profit before tax (deduction of distribution of employees’ remuneration and directors’s remuneration) as directors' and remuneration. Distributed amount is in accordance with the evaluation of annual operating results.

Payments of supervisors' remuneration and employees’ remuneration are divided into fixed and floated remuneration. Fixed remuneration is monthly payment, floated remuneration is employees’ compensation, year-end bonus, and so on. The distribution of variable remuneration is according to the assessment of the Company’s profitability, personal performance evaluation, job title, contribution to the Company’s operation, general environment and market level.

## (13) Other disclosures

(a) Information on significant transactions:

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

(i) Loans to other parties:

(Unit: Thousand dollars)

| Number | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period | Ending balance | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower | Transaction amount for business between two parties | Reasons for short-term financing | Loss allowance | Collateral | | Individual funding loan limits | Maximum limit of fund financing |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 0 | The Company | JMO | Other receivables | Y | 56,960 (USD5,000) | - | - | 3.50% | Business dealings | 357,886 | | - | | - | 776,538 | 776,538 |
| 1 | JMO | JMOL | Other receivables | Y | 131,310 (CNY34,500) | 131,310 (CNY30,000) | 131,310 (CNY30,000) | 3.50% | Short-term financing | - | Short-term funding needs | - | | - | 618,971 | 618,971 |

Note 1: According to the Company's “procedures for providing loans to other parties”, if foreign companies whose 100% of the voting shares directly or indirectly owned by the Company have needs for business transactions or short-term financing, the total and individual amount of lending cannot exceed 40% of the Company's net worth.

Note2: According to the JMO's “procedures for providing loans to other parties”, if foreign companies whose 100% of the voting shares directly or indirectly owned by the Company has needs for business transactions or short-term financing, the total and individual amount of lending cannot exceed 60% of the Company's net worth.

Note3: The amounts were translated into New Taiwan Dollars at the exchange rates at the ending date of the reporting period.

(ii) Guarantees and endorsements for other parties: None

(iii) Securities held as of December 31, 2020 (excluding investment in subsidiaries, associates and joint ventures): None

# ZHONG YANG TECHNOLOGY CO., LTD.
## Notes to Financial Statements

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of TWD300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Name of company | Category and name of security | Account name | Name of counter-party | Relationship with the Company | Beginning Balance | | Purchases | | Sales | | | | Other | | Ending Balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Shares | Amount | Shares | Amount | Shares | Price | Cost | Gain (loss) on disposal | Shares | Amount (Note 1) | Shares | Amount |
| The Company | CHENG TINA | Investment using the equity method | Cash capital increase | Parents and Subsidiary | 12,000 | 600,078 | 5,000 | 149,851 | - | - | - | - | - | 253,733 | 17,000 | 1,003,662 |
| CHENG TIAN | JMOL | 〃 | 〃 | 〃 | - | 596,485 (USD20,944) | - | 142,400 (USD5,000) | - | - | - | - | - | 290,154 (USD10,188) | - | 1,029,039 (USD36,132) |

(v) Acquisition of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollars)

| Name of company | Name of property | Transaction date | Transaction amount | Status of payment | Counter-party | Relationship with the Company | If the counter-party is a related party, disclose the previous transfer information | | | | References for determining price | Purpose of acquisition and current condition | Others |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Owner | Relationship with the Company | Date of transfer | Amount | | | |
| The Company | Land | November 23, 2020 | 388,880 | Paid off the contract and stamp for$77,760 | CHANG YANG METAL ENTERPRISE CO., LTD. | Non-related parties | | | | - | Appraisal report from Hongbang Real Estate Appraiser Firm | Using for factory expansion in the future | None |

(vi) Disposal of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD100 million or 20% of the capital stock:

(Unit: Thousand dollars)

| Name of company | Related party | Nature of relationship | Transaction details | | | | Transactions with terms different from others | | Notes/accounts receivable (payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/ Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) | |
| The Company | JMO | Subsidiaries | Sales | (357,886) | (35) % | 150 days | No general price can be compared | No significant difference from the normal customer | 103,594 | 31% | Note |
| JMO | The Company | Parent | Purchases | 357,886 | 88 % | 150 days | 〃 | 〃 | (103,594) | (71)% | 〃 |
| JMO | The Company | Parent | Sales | (141,104) | (16) % | 60 days | 〃 | 〃 | 26,940 | 6% | 〃 |
| The Company | JMO | Subsidiaries | Purchases | 141,104 | 41 % | 60 days | 〃 | 〃 | (26,940) | (34)% | 〃 |
| JMOL | The Company | Parent | Sales | (112,993) | (26) % | 60 days | 〃 | 〃 | 21,454 | 12% | 〃 |
| The Company | JMO | Subsidiaries | Purchases | 112,993 | 33 % | 60 days | 〃 | 〃 | (21,454) | (27)% | 〃 |

(Continued)

# ZHONG YANG TECHNOLOGY CO., LTD.
## Notes to Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of TWD100 million or 20% of the capital stock:

(Unit: Thousand dollars)

| Name of company | Counter-party | Nature of relationship | Ending balance | Turnover rate | Overdue (Note) | | Amounts received in subsequent period | Loss allowance | Note |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Action taken | | | |
| The Company | JMO | Subsidiaries | 103,594 | 2.19 | - | | 11,636 | - | Note 1 |
| JMO | JMOL | Second-tier Subsidiaries | 131,310 | - | - | | - | - | Note 2 |

Note 1: Information as of February 29, 2021.
Note 2: The subsidiary lent funds to second-tier subsidiary.

(ix) Trading in derivative instruments: Please refer to note 6(b).

(b) Information on investees:

The following is the information on investees for the year 2020 (excluding information on investees in Mainland China):

(Unit: Thousand dollars)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2020 | | | Net income (losses) of investee | Share of profits/losses of investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2020 | December 31, 2019 | Shares (thousands) | Percentage of ownership | Carrying value | | | |
| The Company | CHENG TIAN | Samoa | General investing | 484,160 (USD17,000) | 341,760 (USD12,000) | 17,000 | 100.00 % | 1,003,662 | 232,174 | 230,656 | |
| 〃 | ETERGE | Taiwan | Production and sales of optical components and electronic imaging products | 136,160 | 48,100 | 6,845 | 68.45 % | 147,352 | (8,231) | (5,555) | |

Note: The amounts shown in the table were translated into New Taiwan Dollars at the exchange rates at the end of the reporting period or the average rate of the year of 2020.

(c) Information on investment in Mainland China:

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

(Unit: Thousand dollars)

| Name of investee | 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 flows | | Accumulated outflow of investment from Taiwan as of December 31, 2020 | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) | Book value | Accumulated remittance of earnings in current period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outflow | Inflow | | | | | | |
| JMO | Manufacture and sales of optical molds and products | 503,355 (USD80,000) | Note 1 | 342,415 (USD12,023) | 142,400 (USD5,000 | - | 484,815 (USD17,023) | 222,069 (USD7,520) | 100.00% | 232,169 (USD7,862) | 1,029,039 (USD36,132) | - |
| JMOL | Assemble digital lens and lens coating | 87,540 (CNY20,000) | Note 2 | - (Note 2) | - | - | - | 45,470 (CNY10,621) | 100.00% | 45,470 (CNY10,621) | 51,460 (CNY11,757) | - |

(Continued)

**ZHONG YANG TECHNOLOGY CO., LTD.**
**Notes to Financial Statements**

(ii) Limitation on investment in Mainland China:

| Company Name | Accumulated Investment in Mainland China as of December 31, 2020 (Note 4) | Investment Amounts Authorized by Investment Commission, MOEA (Note 4) | Upper Limit on Investment (Note 4) |
|---|---|---|---|
| The Company | 484,815<br>(USD 17,023) | 484,815<br>(USD 17,023) | 1,164,807 |
| ETERGE | -<br>(USD 0) | 5,696<br>(USD 200) | 126,847 |

Note 1: Indirect investment in Mainland China through companies registered in a third region.
Note 2: Indirect investment in Mainland China through an existing company in Mainland China.
Note 3: The gains and losses on investment of the companies were recognized according to the investees' financial statements which had been reasonably audited by the certified public accountants of the parent company.
Note 4: The amounts shown in the table were translated into New Taiwan Dollars at the exchange rates at the end of the reporting period or the average rate of the year of 2019.
Note 5: The Company invested in mainland China of USD9,107 thousands, which is declared and approved by INVESTMENT COMMISSION, MOEA.
Note 6: ETERGE established a subsidiary in Mainland China named ZHANLI TECHNOLOGY CO., LTD. on December 14, 2020. As of December 31,2020, the capital is not yet in place.

(iii) Significant transactions:

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

(d) Major shareholders:

| Shareholding / Shareholder's Name | Shares | Percentage |
|---|---|---|
| DEVE & JOAN HAPPY LIFE LIMITED | 9,724,854 | 14.22 % |
| Hongyang Venture Capital Co., Ltd. | 9,000,000 | 13.16 % |
| DANIEL & JESSICA HAPPY LIFE LIMITED | 5,876,005 | 8.59 % |
| Hongai International Investment Co., Ltd. | 4,000,000 | 5.85 % |
| Hongyuan International Investment Co., Ltd. | 4,000,000 | 5.85 % |

Note: 1. The information on major shareholders, which is provided by Taiwan Depositor & Clearing Corporation, summarized the shareholders who held over 5% of total non- physical common stocks and preferred stocks (including treasury stocks) on the last business date of each quarter. The registered non-physical stocks may be different from the capital stocks disclosed in the financial statement due to different calculation basis.

2. If shares are entrusted, the above information regarding such shares will be revealed by each trustors of individual trust account. The shareholders holding more than 10% of the total shares of the Company should declare insider' s equity according to Securities and Exchange Act. The numbers of the shares declared by the insider include the shares of the trust assets which the insiders has discretion over use. For details of the insider's equity announcement please refer to the TWSE website.

**(14) Segment information:**

Please refer to the consolidated financial report of 2020.

**ZHONG YANG TECHNOLOGY CO., LTD.**

**Statement of cash and cash equivalents**

**December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|---|---|---|
| Cash on hand and petty cash | New Taiwan Dollars and foreign currency | $ 90 |
| Checking accounts | | 620 |
| Demand deposits | New Taiwan Dollars | 78,500 |
| | Foreign currency (USD 8,846 thousand, and others) | 252,033 |
| | | 331,153 |
| Time deposits | Foreign currency (USD 2,000 thousand) | |
| | (Maturity dates 2021.01.15) | 56,960 |
| | | **$ 388,203** |

Note: The exchange rate is 28.48 New Taiwan Dollars for 1 US dollar.

**Statement of notes and accounts receivables—**
**non-related parties**

| Client Name | Discription | Amount |
|---|---|---|
| Accounts receivable | | |
| D Company | Operating revenue of non-related parties | $ 96,304 |
| G Company | 〃 | 54,497 |
| L Company | 〃 | 32,266 |
| Q Company | 〃 | 13,384 |
| Others (Note) | 〃 | 16,964 |
| | | 213,415 |
| Less: Loss allowance | | (19,822) |
| Total | | **$ 193,593** |

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

**ZHONG YANG TECHNOLOGY CO., LTD.**

**Statement of inventories**

**December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Cost | Net realizable value |
|---|---|---|
| Finished goods | $ 18,416 | 25,021 |
| Work in process | 74,774 | 140,306 |
| Raw mateials | 23,494 | 29,469 |
| | **$ 116,684** | **194,796** |

**Statement of other non-current assets**

| Item | Amount |
|---|---|
| Prepayment of property, plant, equipment and land | $ 82,504 |
| Restricted bank deposits | 65,504 |
| Guarantee deposits | 2,250 |
| | **$ 150,258** |

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

**Zhong Yang Technology Co., LTD.**

**Statement of changes in investments accounted for using the equity method**

**December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| Name of Investee | Beginning Balance | | Increase (Note 1) | | Decrease | | Share of profit (loss) Recognized method | Exchange differences on translation of foreign financial statement | Unrealized gains sale | Changes in ownership interest (Note 2) | Ending Balance | | | Market price or Net value | Collaterals or pledged assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | | | Number of Shares | Percentage of ownership | Amount | | |
| CHENG TIAN | 12,000 | $ 678,377 | 5,000 | 149,851 | - | - | 230,656 | - | - | - | 17,000 | 100 % | 1,058,884 | 1,029,975 | None |
| Exchange differences on translation of foreign financial statements | - | (47,954) | - | - | - | - | - | 19,046 | - | - | - | - % | (28,908) | - | 〃 |
| Unrealized gains | - | (30,345) | - | - | - | - | - | - | 4,031 | - | - | - % | (26,314) | - | 〃 |
| Subtotal | - | 600,078 | - | 149,851 | - | - | 230,656 | 19,046 | 4,031 | - | - | - % | 1,003,662 | - | |
| ETERGE | 3,700 | 59,734 | 3,145 | 88,060 | - | - | (5,555) | - | - | 5,113 | 6,845 | 68.45 % | 147,352 | 144,711 | |
| | | **$ 659,812** | | **237,911** | | **-** | **225,101** | **19,046** | **4,031** | **5,113** | | | **1,151,014** | | |

Note 1: The increase in the current period included the participation of the capital increased by cash of subsidiaries amounting to $237,911.

Note 2: Changes in the ownership interests in investments accounted for using the equity method amounted to $5,113.

**Zhong Yang Technology Co., LTD.**

**Statement of short-term borrowings**

**December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| Creditor | Description | Contract Period | Interest Rate | Loan Commitment | Collaterals or pledged assets | Ending Balance |
|---|---|---|---|---|---|---|
| Hua Nan Bank | Credit Loans | 2020.07~2021.07 | 1.10% | $ 30,000 | None | 30,000 |
| Citi Bank | Credit Loans | 2020.03~2021.03 | 0.95%~1.10% | 85,440 | None | 70,000 |
| JihSun Bank | Credit Loans | 2020.07~2021.06 | 1.09% | 80,000 | None | 60,000 |
| | | | | **$ 195,440** | | **160,000** |

**Statement of other payables**

| Item | Description | Amount |
|---|---|---|
| Accrued payroll and bonuses | Wages and salaries expenses of December 2020 and estimated year-end bonuses of 2020 | $ 60,178 |
| Employees and directors' compensation | | 16,500 |
| Others (Note) | Payables for purchasing machinery and equipment, conversion expenses, and labor and health insurances | 55,499 |
| | | **$ 132,177** |

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

**Zhong Yang Technology Co., LTD.**

**Statement of long-term borrowings**

**December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| | | Amount | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Creditor** | **Loan Commitment** | **Loan within one year** | **More than one year** | **Defferred Benefit** | **Contract Period** | **Interest Rate** | **Amount** | **Collaterals or pledged assets** |
| Chang Hwa Bank | $ 360,000 | - | 87,780 | (1,320) | 2019.09~2025.02 | 0.70 % | 86,460 | Machinery and equipment |
| Bank SinoPac | 349,000 | - | 99,720 | (1,366) | 2019.08~2025.10 | 0.75%~1.00% | 98,354 | None |
| | **$ 709,000** | **-** | **187,500** | **(2,686)** | | | **184,814** | |

**Statement of operating revenue**

**For the year ended December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Quantity | Amount |
|---|---|---|
| Mold, Mold Base, Core | 247 (set) and 48,721(piece) | $ 693,643 |
| Mobile Phone Lens and others | | 328,099 |
| | | **$ 1,021,742** |

**ZHONG YANG TECHNOLOGY CO., LTD.**

**Statement of operating expenses**

**For the year ended December 31, 2020**

**(Expressed in thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Commodity inventory, beginning of the year | $ 20,447 |
| Add: Purchases | 184,236 |
| Less: Commodity inventory, end of the year | (4,588) |
| Cost of sales from purchasing | 200,095 |
| Raw materials, beginning of the year | 25,745 |
| Add: Purchases of raw materials | 84,433 |
| Less: Raw material, end of the year | (29,473) |
| Sales of costs of raw materials | (5,835) |
| Raw materials scrapped | (98) |
| Raw materials used and others | (18,556) |
| Raw materials used for the current period | 56,216 |
| Direct labor | 191,365 |
| Manufacturing expenses | 243,630 |
| Costs of goods manufacturered for the current period | 491,211 |
| Add: Work-in-process, beginning of the year | 180,928 |
| Purchase of work-in-process | 73,514 |
| Less: Work-in process, end of the year | (126,794) |
| Work-in-process used and others | (70,746) |
| Sales of costs of work-in-process | (318,076) |
| Work-in-process scrapped | (29,819) |
| Cost of goods manufactured | 200,218 |
| Add: Finished goods, beginning of the year | 7,055 |
| Purchase of finished goods | 2,497 |
| Less: Finished goods, end of the year | (21,798) |
| Finished goods scrapped | (3,178) |
| Finished goods used and others | (8,941) |
| Sales of costs of finished goods | 175,853 |
| Sales of costs of raw materials and work-in-process | 323,911 |
| Allowance for inventory obsolescene | (23,290) |
| Inventory Scrapped | 33,095 |
| Unallocated overhead and others | 80,915 |
| Total operating costs | **$ 790,579** |

# ZHONG YANG TECHNOLOGY CO., LTD.

## Statement of operating costs expenses

### For the year ended December 31, 2020

### (Expressed in thousands of New Taiwan Dollars)

| Item | | Selling Expenses | Administrative Expenses | Research and Development Expenses |
|---|---|---|---|---|
| Payroll expenses | $ | 5,687 | 54,896 | 44,067 |
| Depreciation expenses | | 3,112 | 11,439 | 319 |
| Professional service fees | | 485 | 6,156 | 1,256 |
| Shipping expenses | | 6,944 | 65 | 42 |
| Commission fees | | 8,127 | - | - |
| Inspection expenses | | - | - | 51,997 |
| Others (Note) | | 8,359 | 33,544 | 21,132 |
| | **$** | **32,714** | **106,100** | **118,813** |

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