

**Stock Code:4950**



# **Mutto Optronics Corporation**

## **2020 Annual Report**

Taiwan Stock Exchange Market Observation Post System: <http://mops.twse.com.tw/>

Company Web Site: <http://www.muttoinc.com>

Publication Date: **April 30, 2021**

**I. Name, Title and Contact Information for the Company’s Spokesperson and Deputy Spokesperson**

Spokesperson		Deputy Spokesperson	
Name:	Jui-His Cheng	Name:	Fu-Chuan Chien
Title:	Spokesperson	Title:	Vice President
Tel.:	(02)2700-6958	Tel:	(02)2700-6958
E-mail:	ray.cheng@muttoinc.com	E-mail	Fortune.Chien@muttoinc.com
:			

**II. Contact Information of the Company’s Headquarters, Branches and Plant**

Unit	Address	Telephone
Headquarters	8F., No. 109, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City, Taiwan	+886-2-27006958
Zhubei Plant	4F., No. 199, Zhonghe St., Zhubei City, Hsinchu County, Taiwan	+886-3-5516106
China Plant	No. 899 Jin Xiu Road, High Tech Zone, Tongzhou Area, Nantong City, Jingsu Province, China	+86-513-86591688

**III. Contact Information of Share Transfer Agent**

Name: Transfer Agent Department of Horizon Securities Co., Ltd.  
Address: 3F., No. 236, Sec. 4, Xinyi Rd., Da'an Dist., Taipei City 106, Taiwan  
Website: <http://www.honsec.com.tw>  
Telephone: (02) 2326-8818

**IV. Contact Information of Auditing CPA**

Name of CPA: Pei-De Chen, CPA and Wen-Chin Lin, CPA  
CPA Firm: Deloitte & Touche  
Address: 20F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan  
Telephone: (02) 2725-9988  
Website: <http://www.deloitte.com.tw>

**V. Names of Stock Exchanges where Foreign Securities are Listed and Inquiry on the Information of Foreign Securities: None.**

**VI. The Company’s Web Site: <http://www.muttoinc.com>**

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# I. Letter to Shareholders

## 1.1 Operating Performance in 2020

### 1.1.1 2020 Business plan execution and achievement

The current main business of the Company is the manufacture and sales of stainless steel kitchen utensils and refined cutlery set. The consolidated net income in 2020 was NT\$101,541 thousand, which was decrease NT\$76,859 thousand comparing with the consolidated net income of NT\$178,400 thousand in 2019. The main reason is due to the customers are still have to deplete the previous inventory in 2020 and the market growth is sluggish and affected by COVID-19. Also, the capacity utilization is too low resulted in a gross loss from operations NT\$7,119 thousand and a net operating loss NT\$56,603 thousand in 2020.

In addition, the Company held ample cash after disposal of the optronics industry in 2014 and applied it into the investments of overseas corporate bonds. At the end of 2020, the market value of the Company's holding position was NT\$65,792 thousand, the related interest income was NT\$17,980 thousand, the interest expense of leverage operation was NT\$2,107 thousand, the loss on disposal of investments was NT\$67,237 thousand, and the proposed expected credit loss of bonds was NT\$86,652 thousand, the net loss of bond investments amounted to NT\$138,010 thousand.

Besides, coupled with gain on financial asset at fair value through profit or loss NT\$13,707 thousand, the exchange losses of US dollar depreciation NT\$23,009 thousand, the net other non-operating revenue NT\$11,891 thousand and the income tax benefit NT\$605 thousand, the annual after-tax net loss amounted to NT\$191,419 thousand.

### 1.1.2 Budget implementation

As the Company does not need to prepare 2020 financial prediction, it is not applicable.

### 1.1.3 Financial revenue and expense and profitability analysis

Item		2019	2020	Increase (decrease) in amount
Financial structure (%)	Debt ratio	49.37	18.37	(31.00)
	Ratio of long-term capital to property, plant and equipment	2,206.80	2,248.22	41.42
Solvency (%)	Current ratio	199.27	760.37	561.10
	Quick ratio	180.31	653.05	472.74
Profitability (%)	Return on total assets	(28.19)	(27.08)	1.11
	Return on stockholders' equity	(55.21)	(46.31)	8.90
	Profit ratio	(209.96)	(188.51)	21.45
	Earnings per share(NT\$)	(8.18)	(4.18)	4.00

#### 1.1.4 Research and development

The Company is devoted to the improvement of product manufacturing processes and innovative design, continuously providing customers with best service and creating the maximum value for shareholders since it has been established. In the future, we will continue to proceed the development and investment of prospective technology and innovative application based on the technical business capabilities of the entire management to optimize the competitiveness of the Company consistently..

### **1.2 Business Plan for 2021**

#### 1.2.1 Business policy and important production and sales policies

##### A. Operations of existing market

The subsidiary Shanghai Sihe Stainless Steel Products Co., Ltd., relocated to another subsidiary, Nantong Sihe Stainless Steel Products Co., Ltd, at the end of October 2017 to proceed its manufacture and operation. It has been focused on the development and manufacture of stainless steel cutlery for years to provide customers with excellent quality products and enhances the dependence of the customers with its abundant mass production experience. In addition to actively developing new customers, we will consistently be developing the high additional value products to avoid price competition with the competitors. Also, we maintain good partnerships with up- and downstream suppliers actively to have fully cooperation and make the product cost become more competitive. The Company will mainly focus on the development of new products, improving the yield and production efficiency at present stage. Also, will constantly reviewing the products and their developing trends to meet the market demands and approaching to the high-growth product supply chain.

##### B. Actively development of new customers

The ratio of sales to customer A to total net sales is over 90%. We actively developed new customers this year and won their approval, and we will gradually reduce the risks of high concentration of sales.

#### 1.2.2 Sales volume forecast and the basis thereof

The sales volume forecast of the Company in 2021 for the stainless steel kitchen cutlery is 4,848 thousand sets based on the future market overview and add project. It's rise substantially.

### **1.3 Business Future Development Strategy, the Effect of External Competition, the Legal Environment, and the Overall Business Environment**

In addition to continuous delving into the improvement of production processes to improve production efficiency and reduce production cost, the Company will focus on the development of automation production and rationally distributing the products to be self-made or outsourcing as the principle to maximize the profits. Also, we will actively program other operating projects based on the technical business capabilities of the entire management to ensure the interests of all shareholders.

Looking forward to 2021, the United States and China signed Phase 1 trade deal at the beginning of the year, and the political and economic risks have fallen. The global economy is expected to gradually recover. In January 2021, the World Bank released the "Global Economic Prospects" which stated that the widespread vaccination of the COVID-19 epidemic and investment are the two key factors for maintaining global economic growth. It predicted an economic growth rate of 4% this year. However, there remains a high level of uncertainty in the forecasts which will be determined by the epidemic control conditions in different countries. In view of the changes in the prices of commodities as countries print cash in response to the epidemic, the Company will continue to monitor the changes in the environment and adjust development plans in advance.

In response to the market demand and customer service requirements, the Company set up the Optoelectronic Business Division to return to the touch panel market. We target the medium to large panels and focus on 15.6" to 43" products as our main markets. We also specialize in sports and fitness equipment, medical equipment, boats, yachts, and special applications that require high-brightness displays. We have set up a demonstration plant Zhubei City, Hsinchu County, which focuses on full-lamination touch screen. We plan to start production in small batches and complete related certification in the second quarter.

The Optoelectronic Business Division uses its expertise in touch screens to focus on product applications with high brightness, waterproof, dust resistance, anti-corrosion, and heat dissipation, and optical-grade full-lamination process. With comprehensive management of the supply chain, we plan to obtain certification from numerous end-customers by the second half of the year to power future business growth.

Best wishes for good health and prosperity!

Chairman: Shiou-Yuh Liaw

General Manager: Shiou-Yuh Liaw

Accounting Officer: Tzu-Chiao Lan

## II. Company Profile

### 2.1 Date of Incorporation

October 24, 2008.

### 2.2 Company History

October 2007	Mutto Optronics Group Limited (abbreviated below as MOGL) set up registration in British Virgin Islands.
May 2008	Mutto Optronics Group Limited (abbreviated below as Mutto Group) set up registration in British Virgin Islands, and invested in 100% of the equity of Mutto Optronics (Suzhou) Co., Ltd. (abbreviated below as Mutto Suzhou), as its primary manufacturing factory.
June 2008	Mutto Suzhou began construction on its clean room.
July 2008	Completion of the ISO9001 verification on the Mutto Group and Mutto Suzhou.
August 2008	The clean room in the Mutto Suzhou factory started operations.
September 2008	Completion of the ISO 14000 verification on the Mutto Group and Mutto Suzhou.
October 2008	Completion of the IECQ HSPM(QC080000) verification on the Mutto Group and Mutto Suzhou.
October 2008	Mutto Optronics Corporation (abbreviated below as the Company or Mutto Taipei) set up registration, paid-up capital stood at NT\$10 million, Mutto Taipei was a 100% owned subsidiary of Mutto Group, primarily in charge of R&D of touch display panels and business information collection.
September 2009	The Company applied for a capital increase of NT\$10 million, paid-up capital amount after increase stood at NT\$20 million.
October 2009	Mutto Group initiated group organization adjustment for competitiveness enhancement and operational requirements.
October 2009	The Company acquired a Microsoft Windows 7 technical assessment verification.
December 2009	The Company applied for capital increase of NT\$380 million, paid-up capital amount after increase stood at NT\$400 million
February 2010	The Company applied for capital increase of NT\$100 million, paid-up capital amount after increase stood at NT\$500 million
March 2010	The Company acquired 100% of MOGL equity, indirectly investing in Mutto Suzhou, the Company officially became MOGL's parent company, group organization adjustment was complete.
April 2010	The Company applied for capital increase of NT\$100 million, paid-up capital amount after increase stood at NT\$600 million.
May 2010	The Company applied for public stock offering.
June 2010	The Company was listed at emerging stock market on June 29, 2010.
December 2010	Expansion of Mutto Suzhou Factory 2 was completed, monthly production capacity was upgraded to 7 million pieces per month (at 3.5 inches).
March 2011	The Company applied for capital increase of NT\$100 million, paid-up capital amount after increase stood at NT\$700 million.



April 2012	The Company was listed at the over-the-counter market on April 27, 2012, also applied for capital increase of NT\$68,760 thousand at the same time, paid-up capital amount after increase stood at NT\$768,760 thousand.
November 2013	Approval of the equity disposition case of MOGL, the Company's fully-owned subsidiary through an extraordinary shareholders' meeting.
March 2014	The Company completed the alteration registration process of the sale of MOGL's equity on March 28, 2014.
August 2014	Acquired 100% equity of The King Cut International Co., Ltd. and Sheaffer Manufacturing Co., Ltd. (including its subsidiary, Shanghai Sihe Stainless Steel Products Co., Ltd.) on August 26, 2014.
April 2016	The Company experienced a reduction of capital in the treasury shares, paid-up capital amount after reduction stood at NT\$479 million.
May 2016	The subsidiary CS Solution Holding Limited was set up in the British Virgin Islands, and the company invested in CS Solutions Technology Ltd, started conducting hard disk repair services.
August 2017	The Company bought back its shares for cancellation, paid-up capital after capital reduction stood at NT\$457,790 thousand.
October 2017	The subsidiary Shanghai Sihe Stainless Steel Products Co., Ltd. moved its factory to another subsidiary, Nantong Sihe Stainless Steel Products Co., Ltd. to continue production and operation.
December 2019	The reinvested business in service of hard disk repair ended its operations and began the dissolution and liquidation procedures of sub-subsidiary CS Solution Holding Limited.
March 2020	The board of directors passed the reduction of capital of subsidiaries, Sheaffer Manufacturing Co., Ltd. and Honest Mount Investments Limited.
December 2010	The Company set up the Optoelectronic Business Division and office, appointed the division head, and adjusted the organizational chart.
March 2021	The company moved to 8F., No. 109, Sec. 4, Ren'ai Rd., Da'an Dist., Taipei City 106430, Taiwan
March 2021	TP Division set up the Zhubei Plant.
March 2021	The amount of authorized share capital reached NT\$462,847,500 after the stock option was exercised to convert into 505,750 shares of common stock (yet to be registered).

### III. Corporate Governance Report

#### 3.1 Organization

##### 3.1.1 Organizational Chart



### 3.1.2 Major Corporate Functions

Department	Scope of responsibilities
Chairman	<ol style="list-style-type: none"> <li>1. To execute the Board's resolution, held accountable by all the shareholders.</li> <li>2. To ensure the Company's operations and future directions of development.</li> <li>3. To approve the Company's significant decisions and signing of important contracts.</li> </ol>
General Manger	<ol style="list-style-type: none"> <li>1. To execute the Board's resolution, held accountable by all the shareholders.</li> <li>2. To promote the Company's important business/project and execute plans.</li> <li>3. To compile inter-departmental tasks and exert team operational synergy.</li> <li>4. To approve the Company's significant decisions and signing of important contracts,</li> </ol>
Internal Audit	<ol style="list-style-type: none"> <li>1. To inspect individual operational procedures.</li> <li>2. To review the self-assessment of internal control systems.</li> <li>3. To prepare audit reports and review follow-up reports.</li> <li>4. To make public announcements and reporting for annual routine items.</li> </ol>
Administrative Department Division	<ol style="list-style-type: none"> <li>1. Public affairs management, logistics support planning and management, annual manpower budget formulation and implementation, human resources development, salary management, and other administration-related business.</li> <li>2. Fund scheduling and application, budget preparation and control, financial statements preparation and analysis, and cashier business.</li> <li>3. Tax planning and filing, fixed asset management, accounting, and share-related work.</li> <li>4. Maintenance of public relations and investor relations.</li> <li>5. Information system planning, application maintenance and development, database management and maintenance, network planning and management, and other information and network-related work.</li> </ol>

TP Division	<ol style="list-style-type: none"> <li><b>1. Operational management and business development of TP Division.</b></li> <li><b>2. R&amp;D, production, sales, and after-sales services of TP Division products.</b></li> <li><b>3. Material requirements planning, procurement, and execution of TP Division production.</b></li> <li><b>4. Establishment and maintenance of the quality system of TP Division.</b></li> </ol>
SSK Division	<ol style="list-style-type: none"> <li><b>1. Operational management and business development of SSK Division.</b></li> <li><b>2. R&amp;D, production, sales, and after-sales services of SSK Division products.</b></li> <li><b>3. Material requirements planning, procurement, and execution of SSK Division production.</b></li> <li><b>4. Establishment and maintenance of the quality system of SSK Division.</b></li> </ol>
Market research Division	<ol style="list-style-type: none"> <li><b>1. Survey of industry/market trends and market opportunities.</b></li> <li><b>2. Research of business opportunities and collection of information.</b></li> </ol>

### 3.2 Board of Directors and Management Team

#### 3.2.1 Board of Directors

As of April 30, 2021 Unit: Shares

Title	Nationality/ Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
							Chairman	R.O.C.	Long Yi International Co., Ltd.	N.A.	2021.02.05	3	2021.02.05	100,000			0.22	320,000	0.69	
		Representative: Shiou-Yuh Liaw	Male	2021.02.05	3	2020.11.23	0	0	0	0	0	0	0	0	Master of Laws, National Taiwan University Director of Liaw & Associates	Chairman (Legal Representative) and acting G.M. of the Company Chairman (Legal Representative) of Sheaffer Manufacturing Co., Ltd. Executive Director (Legal Representative) of Nantong Sihe Stainless Steel Products Co., Ltd. Director (Legal Representative) of Honest Mount Investments Limited Director (Legal Representative) of The King Cut International Co., Ltd. Director of Liaw & Associates	None	None	None	Note
Director	R.O.C.	Long Yi International Co., Ltd.	N.A.	2021.02.05	3	2021.02.05	100,000	0.22	320,000	0.69	0	0	0	0	N.A.	N.A.	None	None	None	None
		Representative: Jui-His Cheng	Male	2021.02.05	3	2021.02.05	0	0	0	0	0	0	0	0	Doctor of Business Administration, Nankai University Director, Hua Nan Securities Inc Lecturer, Department of Financ, Shih Chien University	Spokesman of the Company	None	None	None	None
Director	R.O.C.	Ing-Ker International Co., Ltd.	N.A.	2021.02.05	3	2021.02.05	1,000,000	2.18	1,200,000	2.59	0	0	0	0	N.A.	N.A.	None	None	None	None
		Representative: Chiu-Chi Liu	Male	2021.02.05	3	2021.02.05	0	0	0	0	0	0	0	0	Cheng-Kung Vocational Senior High School Supervisor of Action Electronics Co., Ltd.	Director of Action Electronics Co., Ltd. CEO of Shenzhen Yingge Technology Co., Ltd. Director of Action Technology (Jian) Co., Ltd. Supervisor of Action Asia (Shenzhen) Co., Ltd. Supervisor of Dede Technology (Shenzhen) Co., Ltd.	None	None	None	None
Director	R.O.C.	Chaozheng Investment Co., Ltd.	N.A.	2021.02.05	3	2021.02.05	100,000	0.22	200,000	0.43	0	0	0	0	N.A.	N.A.	None	None	None	None
		Representative: Kuo-Huei Ning	Male	2021.02.05	3	2021.02.05	0	0	0	0	0	0	0	0	Master of Public Finance, National Chengchi University Secretary General, Securities & Futures Commission, Ministry of Finance Vice President of Taipei Exchange	Consultant of the Company Independent Director of Sung Gang Corp. Limited Independent Director of Long Bon International Co., Ltd. Independent Director of Tri Ocean Textile Co., Ltd. Spokesman of CJW International Co., Ltd.	None	None	None	None
Director	R.O.C.	Yuelai Investment Co., Ltd.	N.A.	2021.02.05	3	2021.02.05	505,000	1.10	1,000,000	2.16	0	0	0	0	N.A.	N.A.	None	None	None	None
		Representative: Fu-Chuan Chien	Male	2021.02.05	3	2021.02.05	0	0	0	0	0	0	0	0	Bachelor of Computing Science, National Taipei University of Business Chief Financial Officer of Tensall Bio-Tech Co., Ltd.	Deputy General Manager and Acting Spokesman of the Company	None	None	None	None
Independent Director	R.O.C.	Bruce Ho	Male	2021.02.05	3	2021.02.05	0	0	0	0	0	0	0	0	Master of Business Administration, Grand Canyon University Senior Vice President and Chief Investment Officer of IBT Securities Co., Ltd. Director of Investment Management of Jih Sun Financial Holding Co., Ltd. Senior Vice President and Chief Investment Officer of MasterLink Securities	Chairman of International Carbide Technology Co., Ltd. Independent Director of Vigor Kobo Co., Ltd. Chief Financial Officer of Henlius Biotech Co., Ltd.	None	None	None	None

Title	Nationality/ Country of Origin	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship			Remarks
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Independent Director	R.O.C.	Mao-Wei Hung	Male	2021.02.05	3	2010.09.24	0	0	0	0	0	0	0	0	Ph.D., Finance, Northwestern University, USA Chairman of Taiwan Academy of Banking and Finance Dean of College of Management, National Taiwan University Assistant Professor of the Department of Finance, McGill University, Canada Director of Taiwan High Speed Rail Corporation Supervisor of Sharehope Medicine Co., Ltd. Joint Appointment Research Fellow of Institute of Economics, Academia Sinica Research Fellow (joint appointment), Institute of Economics, Academia Sinica.	Professor of International Business, National Taiwan University Independent Director of Alchip Technologies, Limited Independent Director of Fubon Securities Co., Ltd. Independent Director of the Company	None	None	None	None
Independent Director	R.O.C.	Wei-Chyun Yan	Male	2021.02.05	3	2010.09.24	0	0	0	0	0	0	0	0	Master of Business Administration, City University of New York Commissioner of Project Division of China Development Corporation Investment Manager of Santai Tax Consultants Co., Ltd. Finance Assistant Vice President of Hanyang International Industrial Co., Ltd. Senior Vice President of AAEON Technology Inc.	Chairman and G.M. of Atech Oem Inc. Director of Machvision, Inc. Director of CIPHERLAB Co., Ltd. Director (Legal Representative) of AAEON Technology Inc. Director (Legal Representative) of AAEON Technology (Suzhou) Inc. Director of AAEON Technology (Europe) B.V. Chairman (Legal Representative) of QI YE Electronics (Dongguan) Co., Ltd. Chairman (Legal Representative) of Outstanding Electronics Manufacturer (Danyang) Co., Ltd. Chairman (Legal Representative) of Atech Technology (Yichang) Electronics Ltd. Director (Legal Representative) of Atech Technology (Samoa) Ltd. Director (Legal Representative) of Growing Profits Group Limited Director (Legal Representative) of Outstanding Electronics Manufacturer Group Co., Ltd. Independent Director of AVY Precision Technology Inc. Supervisor of Autovision Technology, Inc. Director (Legal Representative) of Sigold Optics, Inc. Director (Legal Representative) of Mim Tech. Inc. Director (Legal Representative) of RedPay Co., Ltd. Director of Cybertek Corporation	None	None	None	None

Note: Where the chairman and general manager or equivalent position (highest level executive officer) is the same person, the spouse, or a first-degree relative, provide information on the reason, reasonableness, necessity, and improvement measures:

- (1) As the Company's organizational structure is relatively streamlined and the nature of the business is simple, the position of the general manager is temporarily held by the chairman. While there are new operating projects, the general manager will be appointed at an appropriate time according to actual needs.
- (2) At present, more than half of the members of the board of directors do not concurrently serve as employees or managers. If the chairman continues to be the acting general manager, a new independent director will be added by December 31, 2023 to enhance the functions of the Board and strengthen supervision functions.

**Major shareholders of the institutional shareholders**

Name of Institutional Shareholders	Major Shareholders
Long Yi International Co., Ltd.	Long Yi Investment Co., Ltd. (100%)
Ing-Ker International Co., Ltd.	Chiu-Chi Liu (96%) 、 Lan-Ying Peng (2%) 、 Kuan-Bo Liu (2%)
Chaozheng Investment Co., Ltd.	Yu-Hong He (50%) 、 Yue-Feng Yang (50%)
Yuelai Investment Co., Ltd.	Jiong-Jun Wu (80%) 、 Sheng-Yi Peng (20%)

**Major shareholders of companies mentioned on the right hand side of the table above**

Company	Major Shareholders
Long Yi Investment Co., Ltd.	Hui-Yu Ye (100%)

**Professional qualifications and independence analysis of directors**

Name	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria(Note)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Chairman:Shiou-Yuh Liaw		✓	✓	✓			✓	✓		✓		✓	✓	✓	✓	✓	0
Director: Jui-His Cheng	✓		✓	✓		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	0
Director: Chiu-Chi Liu			✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	0
Director: Kuo-Huei Ning			✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Director: Fu-Chuan Chien			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Independent Director : Bruce Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Independent Director : Mao-Wei Hung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Independent Director : Wei-Chyun Yan			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

Note: Please tick the corresponding boxes that apply to the directors during the two years prior to being elected or during the term of office.

1. Not an employee of the company or any of its affiliates.
2. Not a director or supervisor of the company or any of its affiliates (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) or supervisor(s) serving on the company's board based on Article 27, paragraph 1 or 2 of the Company Law (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
6. Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
7. Not a director, supervisor, or employee of a company of which the chairman or general manager (or equivalent) themselves or their spouse also serve as the company's chairman or general manager (or equivalent) (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the company's issued shares, and is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof. This does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
10. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company.
11. Not a person of any conditions defined in Article 30 of the Company Law.
12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.



## Management Team

As of April 26, 2020 Unit: Shares

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
General Manager	R.O.C.	Shiou-Yuh Liaw	Male	2020.12.11	0	0	0	0	0	0	Master of Laws, National Taiwan University Director of Liaw & Associates	Note 1	None	None	None	Note 3
TP BU General Manager	R.O.C.	Guo-Shu Ding	Male	2020.12.11	0	0	0	0	0	0	Master of Business Administration, National Taiwan University Master of Science, Oklahoma State University Executive Assistant To General Manager, Usun Technology Co., Ltd. General Manager, Cando Corporation. Deputy General Manager, Tera Xtal Technology Corporation Factory Chief, Innolux Corporation / Assistant Manager, Au Optronics Corp.	None	None	None	None	None
Deputy General Manager (Note 2)	R.O.C.	Fu-Chuan Chien	Male	2021.02.01	0	0	0	0	0	0	Bachelor of Computing Science, National Taipei University of Business Deputy General Manager, Sunrise Print Technology Co., Ltd. Chief Financial Officer, Tensall Bio-Tech Co., Ltd.	None	None	None	None	None
Financial Manager	R.O.C.	I-Hsuan Lin	Female	2021.03.29	0	0	0	0	0	0	Bachelor of Business Administration, Lunghwa University of Science and Technology Financial Administrator, Apex Medical Corp. Senior Financial Administrator, China Petrochemical Development Corp.	None	None	None	None	None
Internal Audit Manager	R.O.C.	Li-Cing Guo	Female	2021.02.02	0	0	0	0	0	0	Master of Science, National Yunlin University of Science and Technology Internal Audit Manager, Tensall Bio-Tech Co., Ltd Audit Supervisor, Future Intelligence Technology Inc.	None	None	None	None	None

Note1: General Manager Shiou-Yuh Liaw is also the deputy Chairman (Legal Representative) of Sheaffer Manufacturing Co., Ltd. & Executive Director (Legal Representative) of Nantong Sihe Stainless Steel Products Co., Ltd. & Director (Legal Representative) of Honest Mount Investments Limited & Director (Legal Representative) of The King Cut International Co., Ltd. & Director of Liaw & Associates.

Note2: Deputy General Manager Fu-Chuan Chien is also the deputy Corporate Governance Officer & Principal Accounting officer of the company

Note3: Where the general manager or equivalent position (highest level executive officer) and chairman is the same person, the spouse, or a first-degree relative, provide information on the reason, reasonableness, necessity, and improvement measures:

- (1) As the Company's organizational structure is relatively streamlined and the nature of the business is simple, the position of the general manager is temporarily held by the chairman. While there are new operating projects, the general manager will be appointed at an appropriate time according to actual needs.
- (2) At present, more than half of the members of the board of directors do not concurrently serve as employees or managers. If the chairman continues to be the acting general manager, a new independent director will be added by December 31, 2023 to enhance the functions of the Board and strengthen supervision functions.

3.2.2 Remuneration of Directors, President, and Vice President

**Remuneration of Directors**

Unit: NT\$ thousand

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees						Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from Non-consolidated Affiliates or Parent Company		
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D)				Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)						
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements			
Chairman	Ming-Tsung Lee (Note 3)	0	0	0	0	0	0	0	0	0.00%	0.00%	0	0	0	0	0	0	0	0	0.00%	0.00%	0
Director	Jen-Yeong Yu (Note 4)	360	360	0	0	0	0	60	60	-0.22%	-0.22%	0	0	0	0	0	0	0	0	-0.22%	-0.22%	0
Director	Hui Yi Asset Management Consultant Ltd Representative: Fan Chang (Note 5)	340	340	0	0	0	0	40	40	-0.20%	-0.20%	0	0	0	0	0	0	0	0	-0.20%	-0.20%	0
Director	Qiming Technologies Holding Limited Representative: Duane Ziping Kuang / Shiou-Yuh Liaw (Note 6)	0	0	0	0	0	0	0	0	0%	0%	0	0	0	0	0	0	0	0	0%	0%	0
Independent Director	Mao-Wei Hung	480	480	0	0	0	0	60	60	-0.28%	-0.28%	0	0	0	0	0	0	0	0	-0.28%	-0.28%	0
Independent Director	Wei-Chyun Yan	480	480	0	0	0	0	60	60	-0.28%	-0.28%	0	0	0	0	0	0	0	0	-0.28%	-0.28%	0
Independent Director	Chi-Dou Dong (Note 7)	480	480	0	0	0	0	50	50	-0.28%	-0.28%	0	0	0	0	0	0	0	0	-0.28%	-0.28%	0

Note 1: Independent Directors' remuneration policies, procedures, standards and structure, as well as the linkage to responsibilities, risks and time spent:

- Independent Directors' remuneration and compensation are paid according to the Company's Articles of Incorporation. Regardless of the Company's profit or loss, the board of directors is authorized to decide the compensation to directors after the remuneration committee makes recommendations, according to each director's contribution to the operation and involvement in the operation of the Company, and comparing to domestic and foreign peer's levels. In addition, in accordance with Article 22 of the Articles of Incorporation, a certain ratio of the profits shall be set aside as directors' compensation and shall be approved by the board of directors then submitted to the shareholders' meeting. The business execution allowance is paid according to the situation in which the independent director attends the meeting in person, pay per attendance.

Note 2: Other than those disposed in the Table above, remuneration received by directors in the recent year for services provided to a company as mentioned in the financial statements (e.g. serving as a consultant not as an employee): None.

Note 3: Director Ming-Tsung Lee resigned on December 11, 2020; Representative of Qiming Technologies Holding Limited Shiou-Yuh Liaw succeeded Ming-Tsung Lee as director.

Note 4: Director Jen-Yeong Yu was dismissed after the reelection of directors on February 5, 2021.

Note 5: Fan Chang was appointed representative of Hui Yi Asset Management Consultant Ltd. on March 19, 2020 and dismissed on November 23, 2020; Hui Yi Asset Management Consultant Ltd. was dismissed after the reelection of directors on February 5, 2021.

Note 6: Shiou-Yuh Liaw succeeded Duane Ziping Kuang as representative of Qiming Technologies Holding Limited on December 10, 2020; Qiming Technologies Holding Limited was dismissed after the reelection of directors on February 5, 2021.

Note 7: Dismissed on Jan. 1, 2021.

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
NT\$0 ~ NT\$999,999	Ming-Tsung Lee, Jen-Yeong Yu, Qiming Technologies Holding Limit Representative: Duane Ziping Kuang / Shiou-Yuh Liaw, Hui Yi Asset Management Consultant Ltd Representative: Fan Chang, Mao-Wei Hung, Wei-Chyun Yan, Chi-Dou Dong	Ming-Tsung Lee, Jen-Yeong Yu, Qiming Technologies Holding Limit Representative: Duane Ziping Kuang / Shiou-Yuh Liaw, Hui Yi Asset Management Consultant Ltd Representative: Fan Chang, Mao-Wei Hung, Wei-Chyun Yan, Chi-Dou Dong	Ming-Tsung Lee, Jen-Yeong Yu, Qiming Technologies Holding Limit Representative: Duane Ziping Kuang / Shiou-Yuh Liaw, Hui Yi Asset Management Consultant Ltd Representative: Fan Chang, Mao-Wei Hung, Wei-Chyun Yan, Chi-Dou Dong	Ming-Tsung Lee, Jen-Yeong Yu, Qiming Technologies Holding Limit Representative: Duane Ziping Kuang / Shiou-Yuh Liaw, Hui Yi Asset Management Consultant Ltd Representative: Fan Chang, Mao-Wei Hung, Wei-Chyun Yan, Chi-Dou Dong
NT\$1,000,000 ~ NT\$1,999,999	-	-	-	-
NT\$2,000,000 ~ NT\$3,499,999	-	-	-	-
NT\$3,500,000 ~ NT\$4,999,999	-	-	-	-
NT\$5,000,000 ~ NT\$9,999,999	-	-	-	-
NT\$10,000,000 ~ NT\$14,999,999	-	-	-	-
NT\$15,000,000 ~ NT\$29,999,999	-	-	-	-
NT\$30,000,000~ NT\$49,999,999	-	-	-	-
NT\$50,000,000 ~ NT\$99,999,999	-	-	-	-
Over NT\$100,000,000	-	-	-	-
Total	7	7	7	7

**Remuneration of the President and Vice President**

Unit: NT\$ thousand

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C) (Note 2)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation paid to the President and Vice President from Non-consolidated Affiliates or Parent Company
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
								Cash	Stock	Cash	Stock			
General Manager	Ming-Tsung Lee (Note 1)	1,325	1,325	0	0	0	0	0	0	0	0	-0.69%	-0.69%	無

Note 1: Assumed office on January 1, 2020 and resigned on December 11, 2020.

Note 2: There was no remuneration of deputy general managers in 2020.

Range of Remuneration	Name of President and Vice President	
	The company	Companies in the consolidated financial statements
NT\$0 ~ NT\$999,999	-	-
NT\$1,000,000 ~ NT\$1,999,999	Ming-Tsung Lee	Ming-Tsung Lee
NT\$2,000,000 ~ NT\$3,499,999	-	-
NT\$3,500,000 ~ NT\$4,999,999	-	-
NT\$5,000,000 ~ NT\$9,999,999	-	-
NT\$10,000,000 ~ NT\$14,999,999	-	-
NT\$15,000,000 ~ NT\$29,999,999	-	-
NT\$30,000,000~ NT\$49,999,999	-	-
NT\$50,000,000 ~ NT\$99,999,999	-	-
Over NT\$100,000,000	-	-
Total	1	1

**Remuneration of the Top Five Executive Officers**

Unit: NT\$ thousand

Title	Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C) (Note 2)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation paid to the Top Five Executive Officers from Non-consolidated Affiliates or Parent Company
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
								Cash	Stock	Cash	Stock			
General Manager	Ming-Tsung Lee (Note 1)	1,325	1,325	0	0	0	0	0	0	0	0	-0.69%	-0.69%	None
Financial Assistant Vice President	Chi-Yeh Hsu	1,386	1,386	72	72	95	95	0	0	0	0	-0.81%	-0.81%	None
Senior Internal Audit Manager	Fang-Bin Li	924	924	64	64	54	54	0	0	0	0	-0.54%	-0.54%	None
Accounting Assistant Vice President	Tzu-Chiao Lan	1,260	1,260	66	66	0	0	0	0	0	0	-0.69%	-0.69%	None

Note 1: Assumed office on January 1, 2020 and resigned on December 11, 2020.

Note 2: The amount is recognized as salary expense for the employee share options.

**Executive Officers Bonuses**

Unit: NT\$ thousand

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income (%)
Executive Officers	General Manganer	Ming-Tsung Lee (Note 1)	-	-	-	-
	Financial Assistant Vice President	Chi-Yeh Hsu				
	Accounting Manager	Yu-Chun Lin				
	Senior Internal Audit Manager	Fang-Bin Li				

Note 1: Assumed office on January 1, 2020 and resigned on December 11, 2020.

Note 2: The Company was accumulated deficit in 2020, so the board of directors decided not to distribute employee compensation.

### 3.2.3 Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents

- A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Unit: NT\$ thousand

Item	The company				Companies in the consolidated financial statements			
	2019		2020		2019		2020	
	Amount	As a % of net income	Amount	As a % of net income	Amount	As a % of net income	Amount	As a % of net income
Directors' remuneration	5,310	-1.42%	2,410	-1.26%	5,310	-1.42%	2,410	-1.26%
Supervisors' remuneration (Note)	-	-	-	-	-	-	-	-
General manager and deputy general manager's remuneration	4,700	-1.25%	1,325	-0.69%	4,700	-1.25%	1,325	-0.69%

Note: The Company revised Articles of Incorporation on September 24, 2010, and established an audit committee to replace the supervisors.

The Company was accumulated deficit in 2020, the remuneration of the directors was mainly the fixed remuneration paid regardless of the Company's profit or loss and the business execution allowance paid according to the situation in which the independent director attends the meeting in person. Due to the fewer meetings of the functional committees in 2020, coupled with the fact that directors who concurrently serve as executive officers did not receive directors' remuneration, the total remuneration paid to directors in 2020 was lower than that in 2019. The remuneration of the general manager and the deputy general manager in 2020 was lower than that in 2019 due to the fact that the salary expenses recognized for the employee stock options were lower than those in 2019.

- B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

Directors' remuneration and compensation are paid in a fixed amount according to the Company's "Regulations for the Remuneration of Directors, Independent Directors, and Executive Officers," industry standards at home and abroad, and each director's involvement in the operation of the Company. In addition, in accordance with Article 22 of the Articles of Incorporation, a certain ratio of the profits shall be set aside as directors' compensation and shall be approved by the board of directors then submitted to the shareholders' meeting. The general manager's compensation depends on the value of his/her contribution to the operation of the Company, with the standards of domestic peers as reference, and annually adjusted depending on the Company's surplus status, price level and company policy; the managers' (except the general manager) compensation, according to the Company's employee handbook, the value of his/her involvement in the operation of the Company and contribution to the operation with the standards of domestic peers as a reference, and annually adjusted depending on the Company's surplus status, price level and company policy.

### 3.3 Implementation of Corporate Governance

#### 3.3.1 Board of Directors

A total of 16 (A) meetings of the Board of Directors were held in 2019. The attendance of directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Chairman	Ming-Tsung Lee	4	0	100	Dismissed on Dec 11,2020 (4 meetings should be attended)
Director	Jen-Yeong Yu	6	0	100	
Director	Qiming Technologies Holding Limited Representative: Duane Ziping Kuang & Shiou-Yuh Liaw	6	0	100	Appointed Representative: Shiou-Yuh Liaw on Dec. 10, 2020
Director	Hui Yi Asset Management Consultant Ltd	2	4	33	
Independent director	Mao-Wei Hung	6	0	100	
Independent director	Wei-Chyun Yan	6	0	100	
Independent director	Chi-Dou Dong	5	1	83	Dismissed on Jan 1,2021

#### Other mentionable items:

- Any objections or issues raised by independent directors against resolutions passed by the Board of Directors:
  - Pursuant to Article 14-3 of the Securities and Exchange Act:  
The Company has already established an audit committee, please refer to the Pages 23~25.
  - Other items not covered in the preceding table: None.
- If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

Date	Content of Proposal	Director's Name	Reasons for Avoidance due to a Conflict of Interest and Participation in Voting
11rd meeting of the sixth BOD 2020.03.27	Formulation of the "Regulations for the Remuneration of Directors, Independent Directors, and Executive Officers."	Mao-Wei Hung Wei-Chyun Yan Chi-Dou Dong Jen-Yeong Yu Hui Yi Asset Management Consultant Ltd. representative: Fan Chang	The directors recused themselves one by one due to their own interests, and did not participate in the discussion or vote.

Date	Content of Proposal	Director's Name	Reasons for Avoidance due to a Conflict of Interest and Participation in Voting
11rd meeting of the sixth BOD 2020.03.27	Adjustment of the acting general manager's remuneration.	Ming-Tsung Lee	The director recused himself due to concurrently serving as the acting general manager, and did not participate in the discussion or vote.
15rd meeting of the sixth BOD 2020.12.11	Appointment of the Company's acting general manager.	Qiming Technologies Holding Limited representative: Shiou-Yuh Liaw	The director recused himself due to appointed as the acting general manager, and did not participate in the discussion or vote.
15rd meeting of the sixth BOD 2020.12.11	Establishment of TP Division and office, appointment of the division head, and release of the division head from non-compete restrictions.	Hui Yi Asset Management Consultant Ltd. representative: Yu-Hong Lu	The director recused himself due to appointed as the acting business general manager of TP Division, and did not participate in the discussion or vote.
16rd meeting of the sixth BOD 2020.12.29	Appointment of the Company's acting general manager.	Qiming Technologies Holding Limited representative: Shiou-Yuh Liaw	The director recused himself due to concurrently serving as the acting general manager, and did not participate in the discussion or vote.
16rd meeting of the sixth BOD 2020.12.29	Appointment of the Company's acting business general manager of TP Division	Hui Yi Asset Management Consultant Ltd. representative: Yu-Hong Lu	The director recused himself due to appointed as the acting business general manager of TP Division, and did not participate in the discussion or vote.



### 3. Implementation of self-evaluations by the board

The board of directors of the Company has approved the Regulations for the Board Performance Evaluation on March 27, 2020.

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation method	Evaluation items
Once a year	January 1 to December 31 every year	The board of directors and individual directors	Internal evaluation of the board and self-evaluation by individual directors	<p>The criteria for evaluating the performance of the board of directors shall cover, at a minimum, the following five aspects:</p> <ol style="list-style-type: none"> <li>1. Participation in the operation of the company;</li> <li>2. Improvement of the quality of the board of directors' decision making;</li> <li>3. Composition and structure of the board of directors;</li> <li>4. Election and continuing education of the directors; and</li> <li>5. Internal control.</li> </ol> <p>The criteria for evaluating the performance of the board members (on themselves), shall cover, at a minimum, the following six aspects:</p> <ol style="list-style-type: none"> <li>1. Alignment of the goals and missions of the company;</li> <li>2. Awareness of the duties of a director;</li> <li>3. Participation in the operation of the company;</li> <li>4. Management of internal relationship and communication;</li> <li>5. The director's professionalism and continuing education; and</li> <li>6. Internal control.</li> </ol>

As described below, the results of self-evaluations of the Board in 2020 were reported to the Board on March 29, 2021.

- (1) The evaluations were scored according to the "Regulations for the Board Performance Evaluation":
  - A. Qualitative indicators, with points (out of 100 points) converted from the weighted percentage.
  - B. Quantitative indicators, with the achievement rate as a percentage of "Yes."
  - C. Based on the said qualitative and quantitative calculations, points are added up per weight of total questions:
    - a. Those with 90 points or above were rated "beyond standard."
    - b. Those with 80 points or above or less than 90 points were rated "conforming."
    - c. Those with less than 80 points were rated "to be improved."
- (2) The evaluations of the Board are summarized in the table below. The directors' continuing education scored lower mainly due to the change in directors in 2020. The Company will continue following up the compliance of directors' continuing education hours.

A. Summary of self-evaluation by individual directors

Qualitative indicator	Number of questions	Total points	Average points	Percentage of points	Average score
1. Execution of the Company's goals and tasks	3	15	12.78	12.8%	4.26
2. Understanding of the director's roles and responsibilities	3	15	13.89	13.9%	4.63
3. Participation in the Company's operation	7	35	31.00	31.0%	4.43
4. Management and communication of the internal relations	3	15	12.22	12.2%	4.07
5. Expertise and continuing education of the directors	2	10	8.44	8.4%	4.22
6. Internal control	2	10	8.78	8.8%	4.39
Total	20	100	87.11	87.1%	4.36

Quantitative indicator	Number of questions	Average achievement	Achievement rate
3. Participation in the Company's operation	1	0.89	
5. Expertise and continuing education of the directors	1	0.22	
6. Internal control	1	1.00	
Total	3	2.11	70.4%

Per weight of total questions, the qualitative and quantitative calculations scored

84.93 , rated "conforming."

B. Summary of self-evaluation by the Board

Qualitative indicator	Number of questions	Total points	Average points	Percentage of points	Average score
1. Participation in the Company's operation	10	50	41.44	25.1%	4.14
2. Improvement of the quality of the Board	8	40	34.00	20.6%	4.25
3. Composition and structure of the Board	5	25	22.78	13.8%	4.56
4. Election and continuing education of the directors	5	25	20.89	12.7%	4.18
5. Internal control	5	25	20.67	12.5%	4.13
Total	33	165	139.78	84.7%	4.24

Quantitative indicator	Number of questions	Average achievement	Achievement rate
1. Participation in the Company's operation	2	1	
2. Improvement of the quality of the Board	4	3	
3. Composition and structure of the Board	2	2	
4. Election and continuing education of the directors	1	0	
5. Internal control	2	2	
Total	11	8	72.7%

Per weight of total questions, the qualitative and quantitative calculations scored 81.72 , rated "conforming."

#### 4. Measures taken to strengthen the functionality of the board

- (1) Regularly review and amend the Company's regulations and rules to meet current laws and substantive management needs to ensure the legality of the regulations and rules.
- (2) Arrange for directors to participate in refresher courses to enable directors to facilitate access to relevant information to maintain their core values and professional strengths and capabilities.

#### 3.3.2 Audit Committee

A total of 6 (A) Audit Committee meetings were held in 2020. The attendance of the independent directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Independent director	Mao-Wei Hung	6	0	100	Re-appointed
Independent director	Wei-Chyun Yan	6	0	100	Re-appointed
Independent director	Chi-Dou Dong	5	0	83	Re-appointed (Dismissed on Jan. 1, 2021)

#### Other mentionable items:

1. Any objections or issues raised by the Audit Committee against resolutions passed by the Board of Directors
  - (1) Pursuant to Article 14-5 of the Securities and Exchange Act:

Board of Directors	Content of Proposal and Follow-Up	Matters listed in Article 14-5 of the Securities and Exchange Act	Resolution passed by over two-thirds of the directors, but not approved by the Audit Committee
11th meeting of the sixth BOD 2020.03.27	(1) Assessment on independence of auditors.	V	
	(2) Amendments to the Company's "Regulations for the Preparation of Financial Statements."	V	
	(3) Recognition of asset impairment and expected credit risk losses according to the International Accounting Standards.	V	
	(4) 2019 financial statements, consolidated financial statements and business reports.	V	
	(5) 2019 deficit compensation.	V	
	(6) 2019 internal control statement.	V	
	(7) Apply for a credit line from CTBC Bank Co., Ltd.	V	
	(8) Matters related to the amount and authorization of the Company and its affiliates to invest in corporate bond and bond funds.	V	
	(9) Capital reduction to make up for losses and cash reduction of the subsidiary, Sheaffer Manufacturing Co., Ltd.	V	
	(10) Amendments to the Company's "Rules and Procedures for Board of Directors Meetings," "Audit Committee Charter," and "Remuneration Committee Charter."	V	
	<p>A. Resolution of the Audit Committee on Mar. 27, 2020:</p> <ol style="list-style-type: none"> <li>1. For Proposal (8), all the attending members of the Audit Committee unanimously agreed on the following and submitted the same to the Board for resolution: From now on, the Company shall not apply for new loans for the purchase of financial products.</li> <li>2. For the remaining proposals, all members of the Audit Committee expressed approval.</li> </ol> <p>B. The Company's response: All the attending directors expressed approval.</p>		
12th meeting of the sixth BOD 2020.05.13	(1) Recognition of expected credit risk losses according to the International Accounting Standards.	V	
	(2) 1Q20 consolidated financial statements.	V	
	<p>Resolution of the Audit Committee on May 13, 2020: All members of the Audit Committee expressed approval.</p> <p>The Company's response: All the attending directors expressed approval.</p>		
13th meeting of the sixth BOD 2020.08.12	(1) Revision of the Company's 2020 audit plans.	V	
	(2) Review of whether the Company's and subsidiaries' receivables in a significant amount and beyond normal credit period of three months are of financing nature.	V	
	(3) 2Q20 consolidated financial statements.	V	
	(4) The Company's subsidiary HMIL provides a loan of funds of US\$2 million to the Company.	V	
	(5) Matters related to a meeting of creditors held by the issuer of the bonds held by HMIL, a subsidiary of the Company.	V	
	<p>Resolution of the Audit Committee on Aug. 12, 2020: All members of the Audit Committee expressed approval.</p> <p>The Company's response: All the attending directors expressed approval.</p>		
14th meeting of the sixth BOD 2020.11.11	(1) Recognition of expected credit risk losses according to the International Accounting Standards.	V	
	(2) Review of whether the Company's and subsidiaries' receivables in a significant amount and beyond normal credit period of three months in 3Q20 are of financing nature.		

Board of Directors	Content of Proposal and Follow-Up	Matters listed in Article 14-5 of the Securities and Exchange Act	Resolution passed by over two-thirds of the directors, but not approved by the Audit Committee
	(3) 3Q20 consolidated financial statements.		
	(4) The Company's 2021 audit plans.	V	
	(5) Amendments to the Company's "Internal Audit Implementation Rules."	V	
	(6) Amount and limit of loans provided between the Company and group entities.	V	
	Resolution of the Audit Committee on Nov. 11, 2020: All members of the Audit Committee expressed approval. The Company's response: All the attending directors expressed approval.		
15th meeting of the sixth BOD 2020.12.11	(1) Appointment of the Company's acting general manager.	V	
	(2) Release of the head of Optoelectronic Business Division from non-compete restrictions.		
	(3) Capital expenditure plans for the establishment of Optoelectronic Business Division.	V	
	Resolution of the Audit Committee on Dec. 11, 2020: All members of the Audit Committee expressed approval. The Company's response: All the attending directors expressed approval.		
16th meeting of the sixth BOD 2020.12.29	(1) Cash reduction of the subsidiary, Sheaffer Manufacturing Co., Ltd.	V	
	(2) Cash reduction of the subsidiary, Honest Mount Investments Limited.	V	
	(3) The Company's subsidiary HMIL provides a loan of funds of US\$1 million to the Company.		
	Resolution of the Audit Committee on Dec. 29, 2020: All members of the Audit Committee expressed approval. The Company's response: All the attending directors expressed approval.		

(2) In addition to the items listed above, any resolution passed by over two-thirds of the directors, but not approved by the Audit Committee: None.

2. If there are independent directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified: None.

3. Communication between independent directors, the Company's chief internal auditor and CPAs about major financial/operational matters:

(1) Communication between independent directors and the Company's chief internal auditor

- A. Before the end of each fiscal year, the next annual audit plan is approved by the audit committee and then approved by the board of directors.
- B. The internal audit chief officer will send the audit and follow-up reports to independent directors via E-mail every month after submitting those reports to the chairman. If the independent directors have any questions or instructions after review, they shall ask or inform the internal audit chief officer. In addition, the internal audit chief officer communicates with the independent directors face to face every quarter and reply to their inquiries.

C. The internal audit chief officer attended the audit committee and the board of directors to present the audit report, the independent directors stays on top of the internal audit status of the Company at all times.

(2) Summary of previous communication between independent directors and the internal audit chief officer

Date	Report Items
Mar. 27, 2020	Report on the implementation of the audit plan from Dec. 2019 to Feb. 2020.
May 13, 2020	Report on the implementation of the audit plan from Mar. to Apr. 2020.
Aug. 12, 2020	Report on the implementation of the audit plan from May to Jul. 2020.
Nov. 11, 2020	Report on the implementation of the audit plan from Aug. to Sep. 2020.
Nov. 11, 2020	Report on the implementation of the audit plan from Oct. 2020.
Dec. 30, 2019	Report on the implementation of the audit plan from Nov. 2010.

(3) Independent directors and CPAs have held a total of 1 meetings in 2020. CPAs discussed the review of the Company's financial statements with the independent directors. If there is special circumstance, CPAs will report immediately to the independent directors. The communication between the independent directors and CPAs is good.

Date	Items
Dec.29, 2020	<ol style="list-style-type: none"> <li>1. CPAs explained the scope and method of auditing the Company's financial statements, including identifying significant risks and key audit matters.</li> <li>2. CPAs explained the update of the law and the method of audits on overseas subsidiaries in 2020.</li> </ol>

### 3.3.3 Corporate Governance Implementation Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
1. Does the Company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	V		The Company has established the Corporate Governance Best-Practice Principles with reference to “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and considered the operational and practical needs of the Company, and published them on the Company’s website and market observation post system (MOPS).	No significant discrepancy
2. Shareholding structure & shareholders’ rights (1) Does the Company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure? (2) Does the Company possess the list of its major shareholders as well as the ultimate owners of those shares? (3) Does the Company establish and execute the risk management and firewall system within its conglomerate structure? (4) Does the Company establish internal rules against insiders trading with undisclosed information?		V	(1) The Company’s spokesperson takes care of shareholders’ opinions and conflicts and coordinates related departments to implement them.  (2) The Company constantly updates the list of major shareholders and their ultimate controller that actually control the Company by interacting with these major shareholders.  (3) The management rights and responsibilities of assets, finance and accounting between the Company and its related companies are all independent and are subject to the “Rules for Supervision and Management of Subsidiaries” and are implemented.  (4) The Company has established the "Rules for the Prevention of Insider Trading " to regulate the relevant matters.	No significant discrepancy
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members?		V	(1) The Company has appointed 3 independent directors. The board of directors consists of personnel with industry expertise, business operations and financial expertise.	No significant discrepancy

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>(2) Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?</p> <p>(3) Has the Company established methodology for evaluating the performance of its Board of Directors, on an annual basis, reported the results of performance to the Board of Directors, and use the results as reference for directors’ remuneration and renewal?</p> <p>(4) Does the Company regularly evaluate the independence of CPAs?</p>	V	V	<p>(2) The company has not set up other functional committees except the remuneration committee and the audit committee.</p> <p>(3) The board of directors of the Company has established the Regulations for the Board Performance Evaluation on March 27, 2020. The results of evaluations were reported to the Board on March 29, 2021 and may be used as the basis for determining the remuneration and nomination of individual directors; however, no directors' remuneration was distributed as the Company made a loss in 2020.</p> <p>(4) The Company has established the independence evaluation project for CPAs with reference to the independence of accountants stipulated in Article 47 of the Accountant Law and the content of “Integrity, Objectivity and Independence” of the Bulletin No.10 of the “Norm of Professional Ethics for Certified Public Accountant”. The evaluation items are mainly divided into the following categories:            (i) Independence influenced by self-interest.            (ii) Independence influenced by self-review.            (iii) Independence influenced by advocacy.            (iv) Independence influenced by familiarity.            (v) Independence influenced by intimidation.            The Accounting Department of the Company conducts an initial assessment of the independence and suitability of CPAs on a regular basis every year, and submits to the Audit Committee for review and approval before submitting to the board of directors for discussion and resolution.</p>	
4. Does the Company appoint competent and appropriate corporate governance personnel and corporate governance officer to be in charge of corporate governance affairs	V		The board of directors of the Company has approved Chi-Yeh Hsu, the assistant vice president of Finance Department, as the chief corporate governance officer, to protect the rights and interests of shareholders and strengthen the powers of the board of directors. A.V.P. Hsu has more than	No significant discrepancy



Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(including but not limited to furnishing information required for business execution by directors, assisting directors’ compliance of law, handling matters related to board meetings and shareholders’ meetings according to law, and recording minutes of board meetings and shareholders’ meetings)?			<p>three years of management experience in finance and shareholder affairs of public companies. Her main duties are to provide the information required by the directors to carry out their duties, assist the directors to follow the laws and regulations, and handle matters related to the board of directors and shareholders’ meeting in accordance with the law. Because she is the first time as the chief corporate governance officer, she has completed an 18-hour refresher course in 2020.</p> <p>The 2020 business execution about corporate governance is as follows:</p> <ol style="list-style-type: none"> <li>1. Assisting directors (including independent directors) in performing their duties, providing the required information and arranging refresher courses for directors: <ol style="list-style-type: none"> <li>(1) Notify board members of the latest laws and regulations regarding the Company's business areas and corporate governance.</li> <li>(2) Provide the Company’s information required by directors to maintain smooth communication between directors and department heads.</li> <li>(3) When the independent directors need to know the Company's finance or operational actions, she assists in arranging meetings between independent directors and chief internal audit officer or CPAs.</li> <li>(4) Assisting directors (including independent directors) in arranging refresher courses for them.</li> </ol> </li> <li>2. Assisting the procedures and resolutions of the Board meetings and shareholders' meetings are in compliance with laws: <ol style="list-style-type: none"> <li>(1) Report to the board of directors, independent directors or the audit committee on the Company's corporate governance operations, confirming that the Company's shareholders' meeting and board meeting are in compliance with relevant laws and regulations and the corporate governance best-practice principles.</li> <li>(2) Assist and remind the directors of the rules that should be followed when performing their duties or making a formal resolution of the board of directors, and make suggestions when the board of directors will make an illegal resolution.</li> </ol> </li> </ol>	

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			<p>(3) After the Board meeting, check the announcement of material information regarding important resolutions, ensure the legality and correctness of the content of the material information, so as to ensure equality of the investor's trading information.</p> <p>3. Maintain investor relations: Arrange for directors to communicate with major shareholders, institutional investors or general shareholders as needed, so that investors can obtain sufficient information to evaluate the Company's reasonable capital market value.</p> <p>4. Prepare the agenda of the board of directors and provide the meeting materials to the directors 7 days before the meeting. Notify beforehand if the director is involved self-interest on an agenda item and send the meeting minute within 20 days after the meeting.</p> <p>5. Conduct the pre-registration of the date of the shareholders' meeting in accordance with laws, make the notice, handbook and minute of the meeting within the statutory time limit. Handle the alteration registration after the amendment of the Articles of Incorporation or the re-election of the directors.</p>	
5. Does the Company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	V		A section on stakeholders has been set up on the Company's website and the Company can be contacted by telephone, letter, fax or email at any time to safeguard stakeholders' legitimate rights and interests.	No significant discrepancy
6. Does the Company appoint a professional shareholder service agency to deal with shareholder affairs?	V		The Company has engaged the Horizon Securities Co., Ltd. To manage the affairs of the shareholders' meeting.	No significant discrepancy
7. Information Disclosure (1) Does the Company have a corporate website to disclose both financial standings and the status of corporate governance?	V		(1) The Company has disclosed information of its finance, operational actions and corporate governance on the Company's website.	No significant discrepancy

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>(2) Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?</p> <p>(3) Does the Company announce and report the annual financial statements within two months after the end of the fiscal year, and announce and report the first, second, and third quarter financial statements as well as the operating status of each month before the prescribed deadline?</p>	V	V	<p>(2) The Company has set up a website in both Chinese and English, appointed designated personnel to handle disclosure of regular and irregular information, and implemented the spokesperson system in accordance with the provisions.</p> <p>(3) The Company announces and declares annual financial statements (within three months), the first, second, and third quarter financial statements (within 45 days) and monthly operating status (before 10th of each month) within the time limit specified in Article 36 of the Securities Exchange Law. However, based on the current manpower and resources, it is not possible to announce and declare the aforementioned information in advance.</p>	
<p>8. Is there any other important information to facilitate a better understanding of the Company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?</p>	V		<p>(1) The Company protects employees' rights and interests and provides employee wellness according to the “Labor Standards Act”.</p> <p>(2) Appoint designated personnel to manage investor and stakeholder relations to keep up investor relations.</p> <p>(3) The Company regularly notifies the directors to attend refresher courses to get their certificate.</p> <p>(4) Purchase liability insurance for directors to reduce possible risk losses.</p>	No significant discrepancy
<p>9. Please describe the improvement performed according to the corporate governance evaluation results published by the Corporate Governance Center of Taiwan Stock Exchange in recent years, and propose the matters with priority for improvement and the respective measures.</p> <p>The Company's 2020 annual corporate governance evaluation results are ranked in the 36% to 50% range. The Company will still strengthen the disclosure of the annual report, the Company’s website, and English information and implement relevant corporate governance regulations in the future.</p>				

### 3.3.4 Composition and Operations of the Remuneration Committee

#### A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title	Criteria Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks	
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10			
Independent Director	Mao-Wei Hung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Wei-Chyun Yan			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Bruce Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the company or any of its affiliates.
2. Not a director or supervisor of the company or any of its affiliates (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the officer in the preceding 1 subparagraph, or of any of the above persons in the preceding subparagraphs 2 and 3.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company, ranks as of its top five shareholders, or has representative director(s) or supervisor(s) serving on the company's board based on Article 27, paragraph 1 or 2 of the Company Law (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
6. Not a director, supervisor, or employee of a company of which the majority of board seats or voting shares is controlled by a company that also controls the same of the company (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company,

- subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
7. Not a director, supervisor, or employee of a company of which the chairman or general manager (or equivalent) themselves or their spouse also serve as the company's chairman or general manager (or equivalent) (not applicable in cases where the person is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
  8. Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the company's issued shares, and is concurrently serving as an independent director of the company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
  9. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides auditing services to the company or any affiliate of the company, or that provides commercial, legal, financial, accounting or related services to the company or any affiliate of the company for which the provider in the past 2 years has received cumulative compensation exceeding NT\$500,000, or a spouse thereof. This does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
  10. Not a person of any conditions defined in Article 30 of the Company Law.

#### B. Scope of Duties of Remuneration Committee

The remuneration committee shall exercise the care of a good administrator in faithfully performing the official powers listed below, and shall submit its recommendations for deliberation by the board of directors.

- (1) Prescribe and periodically review the performance review and remuneration policy, system, standards, and structure for directors and managerial officers.
- (2) Periodically evaluate and prescribe the remuneration of directors and managerial officers.

When performing the official powers of the preceding paragraph, the remuneration committee shall follow the principles listed below:

- (1) With respect to the performance assessment and remuneration of directors and managerial personnel of the Company, it shall refer to the typical pay levels adopted by peer companies, and take into consideration the reasonableness of the correlation between remuneration and individual performance, the Company's business performance, and future risk exposure.
- (2) It shall not produce an incentive for the directors or managerial officers to engage in activity to pursue remuneration exceeding the risks that the company may tolerate.
- (3) It shall take into consideration the characteristics of the industry and the nature of the Company's business when determining the ratio of bonus payout based on the short-term performance of its directors and senior management and the time for payment of the variable part of remuneration. The terms of reference of the Company's remuneration committee are to assist the Board in the implementation and evaluation of the Company's overall compensation and benefits policy, as well as the remuneration of directors and managers.

### C. Attendance of Members at Remuneration Committee Meetings

The Remuneration Committee consists of three members whose tenure is from June 25, 2019 to February 5, 2021.

A total of 3 (A) Remuneration Committee meetings were held in 2020. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B/A)	Remarks
Convener	Mao-Wei Hung	3	0	100	Re-appointed
Committee Member	Wei-Chyun Yan	3	0	100	Re-appointed
Committee Member	Chi-Dou Dong	2	0	67	Re-appointed (Dismissed on Jan. 1, 2021.)

#### Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company's response to the remuneration committee's opinion (eg., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified): None.
2. Resolutions of the remuneration committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.

3. Proposals and resolutions of the 220 remuneration committee, and the Company’s response to the remuneration committee’s opinion.

Remuneration Committee	Content of Proposal and Follow-Up
3rd meeting of the fourth Committee 2020.03.27	(1) Formulation of the "Regulations for the Board Performance Evaluation."
	(2) Formulation of the "Regulations for the Remuneration of Directors, Independent Directors, and Executive Officers."
	(3) Set aside ratios for 2020 directors' and employees' remuneration.
	(4) Adjustment of the acting general manager's remuneration.
	<p>A. Resolution of the Remuneration Committee:</p> <p>1. For Proposal (2), all the attending members of the Remuneration Committee expressed approval upon the chair's inquiry in accordance with the Regulations, which stipulate that new directors or independent directors shall not receive the fixed remuneration for the year if their attendance at the Board meetings in the year is less than 50%.</p> <p>2. For the remaining proposals, all members of the Remuneration Committee expressed approval.</p> <p>B. The Company's response: All the attending directors of the board of directors expressed approval on Mar. 27, 2020.</p>
4nd meeting of the fourth Committee 2020.11.11	(1) Evaluation on the general manager's salary.
	(2) Remuneration adjustment for managerial officers.
	<p>Resolution of the Remuneration Committee: All members of the Remuneration Committee expressed approval.</p> <p>The Company's response: Since no adjustment of remuneration was made in the said two proposals, it was not reported to the board of directors for resolution.</p>
5nd meeting of the fourth Committee 2020.12.29	(1) The remuneration of the Company’s acting general manager.
	(1) Remuneration of general manager of sales from the TP Division.
	(2) Remuneration of executive officers other than the acting general manager and the general manager of sales from the Optoelectronic Business Division.
	<p>Resolution of the Remuneration Committee: All members of the Remuneration Committee expressed approval.</p> <p>The Company's response: All the attending directors of the board of directors expressed approval on Dec. 29, 2020.</p>

3.3.5 Corporate Social Responsibility Implementation Status and Deviations from “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
1. Does the Company follow materiality principle to conduct risk assessment for environmental, social and corporate governance topics related to company operation, and establish risk management related policy or strategy?		V	Although the Company has not established relevant risk management policies, it has integrated the risk management of environmental, social and corporate governance topics related to operations into its operation strategies, including company policies, internal operation management and business execution.	Will plan in this direction in the future.
2. Does the Company establish exclusively (or concurrently) dedicated first-line managers authorized by the Board to be in charge of proposing the corporate social responsibility policies and reporting to the Board?		V	The Company has not yet to establish a division to be in charge of promoting the corporate social responsibility.	No relevant department has been established.
3. Environmental Topic				
(1) Does the Company establish proper environmental management systems based on the characteristics of their industries?	V		(1) The Company's environmental management is conducted in accordance with the relevant environmental safety and health laws and regulations.	No significant discrepancy
(2) Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		(2) The Company updates its information system to reduce paper usage, encourages using recycled paper, and implements garbage sorting and recycling.	No significant discrepancy
(3) Does the Company evaluate current and future climate change potential risks and opportunities and take measures related to climate related topics?	V		(3) In response to global warming, to effectively mitigate the impact of climate change, the Company continues to promote various energy-saving and carbon reduction measures, such as using low power consumption and high brightness bulbs for lighting equipment, using electronic forms to reduce paper consumption, etc.	No significant discrepancy



Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(4) Does the Company collect data for greenhouse gas emissions, water usage and waste quantity in the past two years, and set energy conservation, greenhouse gas emissions reduction, water usage reduction and other waste management policies?	V		(4) The Company reviews the consumption of water, electricity, oil and raw materials on a monthly basis, with a view of reducing unnecessary waste of energy and achieving the goals of energy saving, carbon reduction and greenhouse gas reduction.	No significant discrepancy
4. Social Topic				
(1) Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		(1) The Company handles employee-related benefits in accordance with the relevant labor laws and regulations to protect the legitimate rights and interests of employees.	No significant discrepancy
(2) Has the Company established appropriately managed employee welfare measures (include salary and compensation, leave and others), and link operational performance or achievements with employee salary and compensation?	V		(2) The Company has established various employee salary and welfare measures in accordance with the relevant labors law and regulations, and stated in the Articles of Incorporation that if there is profit in the year, it shall set aside 1% to 10% of the profits as employee compensation.	No significant discrepancy
(3) Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		(3) The Company has a health examination system for employees, employees are eligible for health examination expense compensation every 1~2 years according to their age. In addition, the subsidiary in China arrange employees to conduct health checks every year, and organize new employee training courses to strengthen the awareness of hazard recognition and hazard prevention.	No significant discrepancy
(4) Does the Company provide its employees with career development and training sessions?	V		(4) The Company's supervisor is responsible for the implementation of career planning and related training of employees according to their job characteristics.	No significant discrepancy

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(5) Does the Company’s product and service comply with related regulations and international rules for customers’ health and safety, privacy, sales, labelling and set polices to protect consumers’ rights and consumer appeal procedures?	V		(5) The Company's products and services marketing comply with related regulations and international rules. The Company's products are not directly sold to general consumers. For corporate customers, the Company has a full-time after-sales service department to provide customers after-sale service, consultation on product use and accept customer complaints.	No significant discrepancy
(6) Does the Company set supplier management policy and request suppliers to comply with related standards on the topics of environmental, occupational safety and health or labor right, and their implementation status?	V		(6) The Company has not established relevant management policies yet, but if the suppliers involved in violation of the corporate social responsibility policy, the Company may terminate the cooperative relationship at any time. To maintain public welfare, the contract with the supplier states that if there is any fraud, the Company may terminate the contract and request compensation at any time.	No significant discrepancy
5. Does the Company refer to international reporting rules or guidelines to publish CSR Report to disclose non-financial information of the Company? Has the said Report acquire 3rd certification party verification or statement of assurance?		V	The Company has not yet prepared a corporate social responsibility report.	In the future, a corporate social responsibility report will be prepared at an appropriate time according to the Company's business scale.
6. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies”, please describe any discrepancy between the Principles and their implementation: Though the Company has not established the principles for corporate social responsibility, the operation of corporate social responsibility is handled in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies".				
7. Other important information to facilitate better understanding of the Company’s corporate social responsibility practices : None.				

3.3.6 Ethical Corporate Management Implementation Status and Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies”

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>1. Establishment of ethical corporate management policies and programs</p> <p>(1) Does the Company have a clear ethical corporate management policy approved by the Board, and bylaws and publicly available documents addressing its corporate conduct and ethics policy and measures, and commitment regarding implementation of such policy from the Board and the top management team?</p> <p>(2) Whether the Company has established an assessment mechanism for the risk of unethical conduct; regularly analyzes and evaluates within a business context, the business activities with a higher risk of unethical conduct; has formulated a program to prevent unethical conduct with a scope no less than the activities prescribed in paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies?</p> <p>(3) Whether the Company has established relevant policies that are duly enforced to prevent unethical conduct, provided implementation procedures, guidelines, consequences of violation and complaint procedures, and periodically reviews and revises such policies?</p>	V		(1) The Company has established the Ethical Corporate Management Best Practice Principles approved by the Board, which is disclosed on MOPS and its website. The Principles clearly state the Company’s ethical corporate management policies and measures, and commitment regarding implementation of such policies from the Board and the top management team.	No significant discrepancy
	V		(2) The Company's Rules for the Prevention of Insider Trading and Employee Manuals clearly state that employees shall not engage in dishonesty, and shall be prevented through regularly audit by the Internal Audit Office and the implementation of the whistle-blowing system.	No significant discrepancy
	V		(3) The Company has established the Codes of Ethical Conduct and relevant measures that clearly defines consequences of violation and complaint procedure, and implement the Codes.	No significant discrepancy
<p>2. Fulfill operations integrity policy</p> <p>(1) Does the Company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?</p>	V		(1) The Company has established the Ethical Corporate Management Best Practice Principles and related regulations, and implements it according to its	No significant discrepancy

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Whether the Company has set up a unit which is dedicated to promoting the Company’s ethical standards and regularly (at least once a year) reports directly to the Board on its ethical corporate management policy and relevant matters, and program to prevent unethical conduct and monitor its implementation?		V	content. (2) No.	No relevant department established
(3) Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(3) The Company's Employee Manuals has relevant regulations and has been implemented.	No significant discrepancy
(4) To implement relevant policies on ethical conducts, has the company established effective accounting and internal control systems, audit plans based on the assessment of unethical conduct, and have its ethical conduct program audited by internal auditors or CPA periodically?	V		(4) In order to implement ethical management, the Company has established effective accounting and internal control systems. The internal auditors check the compliance of the said systems with the audit plan, prepare audit reports, and submit them to the Audit Committee and the Board.	No significant discrepancy
(5) Does the Company regularly hold internal and external educational trainings on operational integrity?		V	(5) The Company does not conduct internal and external education and training on the ethical corporate management regularly.	To be conducted according to needs
3. Operation of the integrity channel				
(1) Does the Company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		The Company has established whistle-blowing system which clearly identifying a integrity hotline, an appropriate person for follow-up, standard operating procedures for investigating, follow-up improvement measures, relevant confidentiality mechanisms, and the protection and reward system for the whistleblower.	No significant discrepancy
(2) Whether the Company has established standard operation procedures for investigating the complaints received, follow-up measures after investigation are completed, and ensuring such complaints are handled in a confidential manner?	V			
(3) Does the Company provide proper whistleblower protection?	V			

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
4. Strengthening information disclosure Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company’s website and MOPS?	V		The Company has disclosed the Ethical Corporate Management Best Practice Principles and its effectiveness on its website and MOPS.	No significant discrepancy
5.If the Company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation: No significant discrepancy.				
6.Other important information to facilitate a better understanding of the Company’s ethical corporate management policies (e.g., review and amend its policies). The Company's "Procedures for Board of Directors Meetings" has a recusal system for directors. If a director or a juristic person that the director represents is an interested party in relation to an agenda item and the relationship is likely to prejudice the interest of the Corporation, the director may state their views and answer inquiries. However, the director may not participate in discussion or voting on that agenda item and shall recuse himself or herself from the discussion or the voting on the item, and may not exercise voting rights as proxy for another director.				

### 3.3.7 Corporate Governance Guidelines and Regulations

The Company has established the Ethical Corporate Management Best Practice Principles on July 16, 2011, and has disclosed it on its website and the Market Observation Post System (MOPS).

### 3.3.8 Other Important Information Regarding Corporate Governance: None.

### 3.3.9 Internal Control Systems

#### A. Internal control statement

##### Internal control statement

Date: March 29, 2021

The Company states the following with regard to its internal control system for the year 2020:

1. The Company is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The Company has established such a system to provide reasonable assurance in achieving objectives related to the effectiveness and efficiency of operations (including profits, performance and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. An effective internal control system, no matter how perfectly designed, can provide only a reasonable assurance in the accomplishment of the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in the environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the “Regulations Governing the Establishment of Internal Control Systems” by public companies promulgated by the Securities and Futures Bureau, the Financial Supervisory Commission and the Executive Yuan (herein referred to as the “Regulations”). The internal control system evaluation criteria stated in the Regulations classify internal control into five key elements based on the process of management control: (1) Control environment, (2) Risk assessment and response, (3) Control activities, (4) Information and communications, and (5) Monitoring. Please refer to the Regulations for details on these five key elements.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the third paragraph, the Company believes that as of Dec. 31, 2020, its internal control system (including its supervision of subsidiaries), which encompasses internal controls to achieve effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and is reasonably assured of achieving the above-stated objectives.
6. This statement will form a major part of the Company's Annual Report and Prospectus and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Company's Board of Directors' Meeting on March 29, 2021, where all of the seven attending directors did not express any dissenting opinion and affirmed the content of the same.

Mutto Optronics Corporation

Chairman: Shiou-Yuh Liaw

General Manager: Shiou-Yuh Liaw

- B. If CPA was engaged to conduct a special audit of internal control system, provide its audit report: None.

3.3.10 The Listing of Penalties, Major Deficits, and State of Any Efforts to Make Improvements, Arising from Any Legal Penalties Imposed by Regulatory Authorities on the Company or Its Employees, or any Company Punishment toward Employees for Violating Internal Control Rules, Where Such Penalties or Punishments May Have Material Impacts on Shareholders' Interests or Securities Prices, in 2020 and as of the Date of this Annual Report: None.

3.3.11 Major Resolutions at the Shareholders' Meeting and Board Meetings (from 2020 up to publication date in 2021)

Date	Major Resolutions at the Shareholders' Meeting
2020.06.24	(1) Ratification of 2019 business report and financial statements. (2) Ratification of the proposal for 2019 deficit compensation. (3) Amendment to the Procedures for Making Endorsements/Guarantee. (4) Amendment to the Procedures for Lending Funds to Others.
2021.02.05	(1) To elect directors and independent directors in advance. (2) Proposal of release the prohibition on directors from participation in competitive business.

Date	Major Resolutions at the Board Meetings
2020.03.27	(1) Assessment on independence of auditors. (2) Amendment to the Procedures for Management of Preparation of Financial Statements. (3) Recognition of impairment loss for assets asset and expected credit loss losses in accordance with the IAS. (4) 2019 financial statements, consolidated financial statements and business reports. (5) 2019 deficit compensation. (6) 2019 internal control statement. (7) Apply for a credit line from CTBC Bank Co., Ltd. (8) Matters related to the amount and authorization of the Company and its affiliates to invest in corporate bond and bond funds. (9) Capital reduction to make up for losses and cash reduction of subsidiary Sheaffer Manufacturing Co., Ltd. (10) Amendment to the Rules of Procedure for Board of Directors Meetings, Charter of Audit Committee and Charter of Remuneration Committee. (11) Establish the Regulations for the Board Performance Evaluation. (12) Establish the Regulations for Remuneration of the Directors, Independent Directors and Managers. (13) Set aside ratios for 2020 directors' and employees' remuneration. (14) Remuneration adjustment for acting general manager. (15) Convene 2020 general shareholders' meeting.
2020.05.13	(1) Recognition of expected credit risk losses according to the International Accounting Standards. (2) 1Q20 consolidated financial statements. (3) Revision of the Company's 2020 budget plan.
2020.08.12	(1) Revision of the Company's 2020 audit plans. (2) Review of whether the Company's and subsidiaries' receivables in a significant amount and beyond normal credit period of three months are of financing nature. (3) 2Q20 consolidated financial statements. (4) The Company's subsidiary HMIL provides a loan of funds of US\$2 million to the Company. (5) Matters related to a meeting of creditors held by the issuer of the bonds held by HMIL, a subsidiary of the Company.

Date	Major Resolutions at the Board Meetings
2020.11.11	<ul style="list-style-type: none"> <li>(1) Recognition of expected credit risk losses according to the International Accounting Standards.</li> <li>(2) Review of whether the Company's and subsidiaries' receivables in a significant amount and beyond normal credit period of three months in 3Q20 are of financing nature.</li> <li>(3) 3Q20 consolidated financial statements.</li> <li>(4) 2021 annual audit plans.</li> <li>(5) Amendments to the Company's "Internal Audit Implementation Rules."</li> <li>(6) Providing loan of funds among the Company and its subsidiaries or among its subsidiaries.</li> </ul>
2020.12.11	<ul style="list-style-type: none"> <li>(1) By-election of Chairman.</li> <li>(2) Change in the Company's acting general manager.</li> <li>(3) Establishment of Optoelectronic Business Division and office, appointment of the division head, and release of the division head from non-compete restrictions.</li> <li>(4) Capital expenditure plans for setting up the TP Division.</li> <li>(5) Establishment of the Strategic Management Committee.</li> <li>(6) Adjustment of the organizational chart.</li> <li>(7) Change in the Company's Spokesman and Acting Spokesman.</li> <li>(8) Matters related to the authorization of the Company and its affiliates to invest in corporate bond and bond funds.</li> <li>(9) Replacement of the directors of the subsidiary, Honest Mount Investments Limited.</li> <li>(10) Replacement of the directors of the subsidiary, Sheaffer Manufacturing Co., Ltd.</li> <li>(11) Replacement of the executive directors of the sub-subsidiary, Nantong Sihe Stainless Steel Products Co., Ltd.</li> <li>(12) Replacement of the directors of the sub-subsidiary, the King Cut International Co., Ltd.</li> <li>(13) Reelection of the Company's directors and independent directors in advance.</li> <li>(14) Release of the Company's newly elected directors from non-compete restrictions.</li> <li>(15) Convention of the 1st extraordinary shareholders' meeting for 2021.</li> </ul>
2020.12.29	<ul style="list-style-type: none"> <li>(1) 2021 annual budget.</li> <li>(2) Amendments to the "Strategic Management Committee Charter."</li> <li>(3) Adjustment of the organizational chart.</li> <li>(4) Cash reduction of the subsidiary, Sheaffer Manufacturing Co., Ltd.</li> <li>(5) Cash reduction of the subsidiary, Honest Mount Investments Limited.</li> <li>(6) The Company's subsidiary HMIL provides a loan of funds of US\$1 million to the Company.</li> <li>(7) The acting general manager's remuneration.</li> <li>(8) Remuneration of the general manager of sales from Optoelectronic Business Division.</li> <li>(9) Remuneration of executive officers other than the acting general manager and the general manager of sales from the Optoelectronic Business Division.</li> </ul>
2021.01.08	<ul style="list-style-type: none"> <li>(1) Propose the list of director candidates.</li> </ul>
2021.02.02	<ul style="list-style-type: none"> <li>(1) Change in the Company's audit officer.</li> <li>(2) Change in the Company's financial officer and corporate governance officer.</li> </ul>
2021.03.29	<ul style="list-style-type: none"> <li>(1) Assessment on independence of auditors.</li> <li>(2) 2020 financial statements, consolidated financial statements and business reports.</li> <li>(3) 2020 deficit compensation.</li> <li>(4) 2020 internal control statement.</li> <li>(5) Change in the Company's business address.</li> <li>(6) Remuneration adjustment for acting general manager.</li> <li>(7) Adjustment of remuneration of Deputy General Manager Kuo-ShuTing and Spokesman Jui-His Cheng.</li> <li>(8) Remuneration of the Company's corporate governance officer and audit officer.</li> <li>(9) Change in the head of sales from the Optoelectronic Business Division and his/her remuneration.</li> <li>(10) Change in the Company's financial officer and his/her remuneration.</li> </ul>



Date	Major Resolutions at the Board Meetings
	(11) Change in the Company's accounting officer. (12) Convene 2021 general shareholders' meeting.

3.3.12 Major Resolutions at the Shareholders' Meeting and Implementation Status (from 2020 up to publication date in 2021)

Date	Major Resolutions	Implementation Status
2020.06.24	(1) Ratification of 2019 business report and financial statements. (2) Ratification of the proposal for 2019 deficit compensation. (3) Amendment to the Procedures for Making Endorsements/Guarantee. (4) Amendment to the Procedures for Lending Funds to Others.	(1) Resolution was carried out. (2) Resolution was carried out. (3) Implement according to the revised Procedures (4) Implement according to the revised Procedures
2021.02.05	(1) To elect directors and independent directors in advance. (2) Proposal of release the prohibition on directors from participation in competitive business.	(1) Nine directors have been elected, including three independent directors, and were approved by the Taipei City Government on Feb.20, 2021 for registration. (2) Implement according to the revised Procedures

3.3.13 Major Dissenting Comments among Directors over Board Meeting Resolutions from 2020 up to Publication Date in 2021: None.

3.3.14 Resignation or Dismissal of Chairman, President, and Heads of Accounting, Finance, Internal Audit, Corporate Governance and R&D from 2020 up to Publication Date in 2021

Title	Name	On-board Date	Date of Resignation or Dismissal	Summary of Resignation or Dismissal
Chairman	Ming-Tsung Lee	2019.06.25	2020.12.11	Resigned due to personal reason.
General Manager	Ming-Tsung Lee	2020.01.01	2020.12.11	Resigned due to personal reason.
Senior Internal Audit Manager	Fang-Bin Li	2016.04.04	2021.02.02	Due to job adjustment, Internal Audit Manager Li-Cing Guo was appointed as the Internal Audit Officer.
Financial Assistant Vice President	Chi-Yeh Hsu	2015.03.03	2021.02.02	Due to job adjustment, Deputy General Manager Fu-Chuan Chien was appointed as the Finance Officer.
Corporate Governance Officer	Chi-Yeh Hsu	2018.11.12	2021.02.02	Due to job adjustment, Deputy General Manager Fu-Chuan Chien was appointed as the Corporate Governance Officer.
Accounting Assistant Vice President	Tzu-Chiao Lan	2019.12.30	2021.03.29	Due to job adjustment, Deputy General Manager Fu-Chuan Chien was appointed as the Accounting Officer.

Title	Name	On-board Date	Date of Resignation or Dismissal	Summary of Resignation or Dismissal
Finance Officer	Fu-Chuan Chien	2021.02.02	2021.03.29	Due to job adjustment, Financial Manager I-Hsuan Lin was appointed as the Finance Officer.
Business General Manager of TP Division	Yu-Hong Lu	2020.12.11	2021.03/29	Resigned due to personal reason.

### 3.4 Information Regarding the Company's Audit Fee

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Pei-De Chen	2020.01.01~2020.12.31	None
	Wen-Chin Lin	2020.01.01~2020.12.31	

Unit: NT\$ thousand

Fee Range		Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT\$ 2,000,000		-	-	-
2	NT\$2,000,001 ~ NT\$4,000,000		2,100	-	2,100
3	NT\$4,000,001 ~ NT\$6,000,000		-	-	-
4	NT\$6,000,001 ~ NT\$8,000,000		-	-	-
5	NT\$8,000,001 ~ NT\$10,000,000		-	-	-
6	Over NT\$100,000,000		-	-	-

3.4.1 If non-audit fees paid to CPAs, their accounting firm and its affiliates are more than one-fourth of audit fees, specify the amount of audit and non-audit fees, as well as the scope of non-audit services: Not applicable.

Unit: NT\$ thousand

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte & Touche	Pei-De Chen	2,100	-	-	-	-	2,100	2020.01.01~ 2020.12.31	None
	Wen-Chin Lin								

3.4.2 For CPA changes, if the audit fee in the first year is lower than that of the prior year, specify the audit fee before and after the change and the reasons: Not applicable.

3.4.3 If audit fees dropped by more than 10%, specify the amount and percentage of decline and reasons: Not applicable.

### 3.5 Information on CPA Changes

#### 3.5.1 Former CPAs:

Date of Change	Approved by Board of Directors on August 12, 2019		
Reasons and Explanation of Changes	To coordinate with the internal adjustment of Deloitte & Touche, the CPAs of the Company's financial statements, Chien-Liang Liu and Wen-Chin Lin, were replaced by Pei-De Chen and Wen-Chin Lin starting from the third quarter of 2019.		
State whether the Appointment is Terminated or Rejected by the Consignor or CPAs	Client	CPA	Consignor
	Status		
	Appointment terminated automatically	Not applicable	Not applicable
	Appointment rejected (discontinued)	Not applicable	Not applicable
The Opinions other than Unqualified Opinion Issued in the Last Two Years and the Reasons for the Said Opinions	None		
Is there any disagreement in opinion with the issuer	Yes		Accounting principle or practice
			Disclosure of financial statements
			Auditing scope or procedures
			Others
	No	V	
	Explanation		
Supplementary Disclosure (Disclosures Specified in Article 10.6.1.4~7 of the Standards)	None		

#### 3.5.2 Successor CPAs:

Accounting Firm	Deloitte & Touche
Name of CPA	Pei-De Chen and Wen-Chin Lin
Date of Engagement	Approved by Board of Directors on August 12, 2019
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	None
Written Opinions from the Successor CPAs that are Different from the Former CPA's Opinions	None

3.5.3 The reply of former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Standards: Not applicable.

### 3.6 Company's Chairman, President or Finance/Accounting Manager Held Positions in the Company's Audit Firm or its Affiliates within the Past Year: None.

### 3.7 Transfer of Equity Interests and/or Pledge of or Changes in Equity Interests by Directors, Supervisors, Managers or Major Shareholders with a Stake of More than 10 Percent

#### 3.7.1 Changes in Shareholding of Directors, Managers and Major Shareholders

Title	Name	2020		As of Apr. 30, 2021	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and General Manager	Ming-Tsung Lee (Note1)	190,000	0	Not applicable	Not applicable
Director	Jen-Yeong Yu (Note2)	0	0	0	0
Director	Qiming Technologies Holding Limited(Note3)	0	0	0	0
	Representative: Duane Ziping Kuang	0	0	Not applicable	Not applicable
	Representative: Shiou-Yuh Liaw	0	0	0	0
Director	Hui Yi Asset Management Consultant Ltd (Note4)	0	0	0	0
	Representative: Herbert Chang	0	0	Not applicable	Not applicable
	Representative: Fan Chang	0	0	Not applicable	Not applicable
	Representative: Shiou-Yuh Liaw	0	0	0	0
	Representative: Yu-Hong Lu	1,422,034	0	0	0
Chairman	Long Yi International Co., Ltd. (Note5)	Not applicable	Not applicable	0	0
	Representative: Shiou-Yuh Liaw (Note6)	0	0	0	0
Director	Long Yi International Co., Ltd	Not applicable	Not applicable	0	0
	Representative: Jui-His Cheng (Note7)	0	0	0	0
Director	Ing-Ker International Co., Ltd. (Note8)	Not applicable	Not applicable	0	0
	Representative: Chiu-Chi Liu	0	0	0	0
Director	Chaozheng Investment Co., Ltd. (Note9)	Not applicable	Not applicable	0	0
	Representative: Kuo-Huei Ning	0	0	0	0
Director	Yuelai Investment Co., Ltd. (Note10)	Not applicable	Not applicable	0	0
	Representative: Fu-Chuan Chien (Note11)	0	0	0	0
Director	Yu-Hong Lu (Note12)	1,422,034	0	0	0

Title	Name	2020		As of Apr. 30, 2021	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Independent Director	Mao-Wei Hung	0	0	0	0
Independent Director	Wei-Chyun Yan	0	0	0	0
Independent Director	Chi-Dou Dong (Note13)	0	0	0	0
Independent Director	Bruce Ho (Note14)	Not applicable	Not applicable	0	0
Stake of More than 10 Percent	Qiming Technologies Holding Limited	0	0	0	0
TP BU General Manager	Guo-Shu Ding (Note15)	0	0	0	0
Deputy General Manager	Fu-Chuan Chien (Note16)	Not applicable	Not applicable	0	0
Internal Audit Manager	Li-Cing Guo (Note17)	Not applicable	Not applicable	0	0
Financial Manager	I-Hsuan Lin (Note18)	Not applicable	Not applicable	0	0
Accounting Assistant Vice President	Tzu-Chiao Lan (Note19)	0	0	0	0
Financial Assistant Vice President	Chi-Yeh Hsu (Note20)	0	0	0	0
Senior Internal Audit Manager	Fang-Bin Li (Note17)	0	0	0	0

Note 1: Dismissed on Dec.11, 2020.

Note 2: Dismissed after the reelection of the directors on Feb. 5, 2021.

Note 3: (1) Shiou-Yuh Liaw succeeded Duane Ziping Kuang as representative of Qiming Technologies Holding Limited on Dec. 10, 2020.

(2) On Dec.11, 2020, the Board elected Shiou-Yuh Liaw, the representative of Qiming Technologies Holding Limited, as the Chairman and General Manager of the Company.

(3) Qiming Technologies Holding Limited was dismissed after the reelection of the directors in the extraordinary shareholders' meeting on Feb. 5, 2021.

Note 4: (1) Herbert Chang, the representative of Hui Yi Asset Management Consultant Ltd. was dismissed on Feb. 25, 2020.

(2) Fan Chang was appointed representative of Hui Yi Asset Management Consultant Ltd. on Mar. 19, 2020 and dismissed on Nov. 23, 2020.

(3) Shiou-Yuh Liaw was appointed representative of Hui Yi Asset Management Consultant Ltd. on Nov. 23, 2020 and dismissed on Dec. 10, 2020.

(4) Yu-Hong Lu was appointed representative of Hui Yi Asset Management Consultant Ltd. on Dec. 10, 2020.

(5) Newly elected on Feb. 5, 2021.

Note5 : Newly elected on Feb. 5, 2021.

Note6 : Concurrently act as Chairman and General Manager.

Note7 : Concurrently act as Spokesman of the Company.

Note8 : Newly elected on Feb. 5, 2021.  
Note9 : Newly elected on Feb. 5, 2021.  
Note10 : Newly elected on Feb. 5, 2021.  
Note11 : Director Fu-Chuan Chien concurrently act as Deputy General Manager and Accounting Officer and Corporate Governance Officer of the Company.  
Note12 : Newly elected on Feb. 5, 2021. And concurrently act as Business General Manager of TP Division. Dismissed on Apr. 22, 2021.  
Note13 : Dismissed on Jan. 1, 2021.  
Note14 : Newly elected on Feb. 5, 2021.  
Note15 : Dismissed on Dec. 11, 2020.  
Note16 : Appointed since Mar. 29, 2021. and Dismissed on Apr. 30, 2021.  
Note17 : Dismissed on Feb. 2, 2021. (Due to job adjustment, Internal Audit Manager Li-Cing Guo was appointed as the Internal Audit Officer.)  
Note18 : Appointed since Mar. 29, 2021.  
Note19 : Dismissed on Mar. 31, 2021.  
Note20 : Dismissed on Mar. 10, 2021.

3.7.2 Shares Trading with Related Parties: None.

3.7.3 Shares Pledge with Related Parties: None.

### 3.8 Relationship among the Top Ten Shareholders

As of April 27, 2021

Name (A)	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name (B)	Relationship	
Qiming Technologies Holding Limited	9,422,000	20.58	0	0	0	0	-	-	-
Ming-Lung Lee	2,381,556	5.20	0	0	0	0	Ching-Lin Lee	A is a relative within two degrees of B	-
Capital Securities Co., Ltd. - CSC Securities (Hong Kong) Limited	1,860,000	4.06	0	0	0	0	-	-	-
Yu-Hong Lu	1,422,034	3.11	0	0	0	0	-	-	-
Ing-Ker International Co., Ltd.	1,200,000	2.62	0	0	0	0	-	-	-
Ting-Sen, Peng	1,133,000	2.47	0	0	0	0	-	-	-
Yen-Chun, Chiang	1,127,000	2.46	0	0	0	0	-	-	-
Ching-Lin Lee	1,030,000	2.25	0	0	0	0	Ming-Lung Lee	A is a relative within two degrees of B	-
Magnetox (Taiwan) Inc.	1,000,000	2.18	0	0	0	0	-	-	-
Long Yi International Co., Ltd.	1,000,000	2.18	0	0	0	0	-	-	-

### 3.9 Ownership of Shares in Affiliated Enterprises

As of December 31, 2019

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Supervisors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
Sheaffer Manufacturing Co., Ltd.	100,000	100	0	0	100,000	100
Shanghai Sihe Stainless Steel Products Co., Ltd.	Not Applicable	100	0	0	Not Applicable	100
Honest Mount Investments Limited	20,000,000	100	0	0	20,000,000	100
The King Cut International Co., Ltd.	5,000	100	0	0	5,000	100
Nantong Sihe Stainless Steel Products Co., Ltd.	Not Applicable	100	0	0	Not Applicable	100
CS Solution Holding Limited	9,090,000	100	0	0	9,090,000	100
CS Solutions Technology Ltd	215,800	100	0	0	215,800	100
Sky Tech International	100	100	0	0	100	100



## IV. Capital Overview

### 4.1 Capital and Shares

#### 4.1.1 Source of Capital

##### A. Type of Stock

As of April 27, 2021

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stock	46,284,750	53,715,250	100,000,000	505,750 shares of common stock converted via the stock option are yet to be registered.

##### B. Issued Shares

As of April 26, 2020

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
10/2008	10	1,000,000	10,000,000	1,000,000	10,000,000	Capital at the time of establishment	-	Note 1
10/2009	10	10,000,000	100,000,000	2,000,000	20,000,000	Cash capital increase: 1,000,000 shares	-	Note 2
01/2010	10	70,000,000	700,000,000	40,000,000	400,000,000	Cash capital increase: 38,000,000 shares	-	Note 3
03/2010	10	70,000,000	700,000,000	50,000,000	500,000,000	Cash capital increase: 10,000,000 shares	-	Note 4
04/2010	50	100,000,000	1,000,000,000	60,000,000	600,000,000	Cash capital increase: 10,000,000 shares	-	Note 5

Month/ Year	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remarks		
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
04/2011	60	100,000,000	1,000,000,000	70,000,000	700,000,000	Cash capital increase: 10,000,000 shares	-	Note 6
05/2012	25	100,000,000	1,000,000,000	76,876,000	768,760,000	Cash capital increase: 6,876,000 shares	-	Note 7
06/2014	-	100,000,000	1,000,000,000	72,039,000	720,390,000	Treasury shares cancelled: 4,837,000 shares	-	Note 8
09/2014	-	100,000,000	1,000,000,000	67,543,000	675,430,000	Treasury shares cancelled: 4,496,000 shares	-	Note 9
11/2014	-	100,000,000	1,000,000,000	63,543,000	635,430,000	Treasury shares cancelled: 4,000,000 shares	-	Note 10
02/2015	-	100,000,000	1,000,000,000	59,043,000	590,430,000	Treasury shares cancelled: 4,500,000 shares	-	Note 11
06/2015	-	100,000,000	1,000,000,000	55,043,000	550,430,000	Treasury shares cancelled: 4,000,000 shares	-	Note 12
12/2015	-	100,000,000	1,000,000,000	49,579,000	495,790,000	Treasury shares cancelled: 5,464,000 shares	-	Note 13
04/2016	-	100,000,000	1,000,000,000	47,900,000	479,000,000	Treasury shares cancelled: 1,679,000 shares	-	Note 14
08/2017	-	100,000,000	1,000,000,000	45,779,000	457,790,000	Treasury shares cancelled: 2,121,000 shares	-	Note 15
03/2021	13.5	100,000,000	1,000,000,000	46,154,000	461,540,000	Exercise of stock warrants issued in 2016	-	Note 16
03/2021	18.2	100,000,000	1,000,000,000	46,284,750	462,847,500	Exercise of stock warrants issued in 2017	-	Note 17

Note 1: Approved in accordance with Fu-Chan-Ye-Shang-Zi No. 09790593310 of Taipei City Government on October 24, 2008.

Note 2: Approved in accordance with Fu-Chan-Ye-Shang-Zi No. 09889341500 of Taipei City Government on October 8, 2009.

Note 3: Approved in accordance with Fu-Chan-Ye-Shang-Zi No. 09980131610 of Taipei City Government on January 15, 2010.

Note 4: Approved in accordance with Jing-Shou-Shang-Zi No. 09901045740 of Ministry of Economic Affairs on March 10, 2010.

Note 5: Approved in accordance with Jing-Shou-Shang-Zi No. 09901081150 of Ministry of Economic Affairs on April 21, 2010.

Note 6: Approved in accordance with Jing-Shou-Shang-Zi No. 10001071930 of Ministry of Economic Affairs on April 18, 2011.

Note 7: Approved in accordance with Jing-Shou-Shang-Zi No. 10101078970 of Ministry of Economic Affairs on May 7, 2012.

Note 8: Approved in accordance with Jing-Shou-Shang-Zi No. 10301106680 of Ministry of Economic Affairs on June 10, 2014.

Note 9: Approved in accordance with Jing-Shou-Shang-Zi No. 10301183410 of Ministry of Economic Affairs on September 3, 2014.

Note 10: Approved in accordance with Jing-Shou-Shang-Zi No. 10301242050 of Ministry of Economic Affairs on November 27, 2014.

Note 11: Approved in accordance with Jing-Shou-Shang-Zi No. 10401027920 of Ministry of Economic Affairs on February 25, 2015.

Note 12: Approved in accordance with Jing-Shou-Shang-Zi No. 10401100740 of Ministry of Economic Affairs on June 4, 2015.

Note 13: Approved in accordance with Fu-Chan-Ye-Shang-Zi No. 10580432100 of Taipei City Government on January 18, 2016.

Note 14: Approved in accordance with Fu-Chan-Ye-Shang-Zi No. 10583868100 of Taipei City Government on April 21, 2016.

Note 15: Approved in accordance with Fu-Chan-Ye-Shang-Zi No. 10657729400 of Taipei City Government on August 23, 2017.

Note 16: Approved in accordance with Jin-Guan-Zheng-Fa-Zi No. 1050024401 of Financial Supervisory Commission on Jun 27, 2016.

Note 17: Approved in accordance with Jin-Guan-Zheng-Fa-Zi No. 1060015795 of Financial Supervisory Commission on May 9, 2017.

C. Information for Shelf Registration : None.

#### 4.1.2 Status of Shareholders

As of April 27, 2021

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	0	1	18	1231	11	1,261
Shareholding (shares)	0	101	5,461,025	28,434,555	12,389,069	46,284,750
Percentage	0	0	11.8	61.43	26.76	100

#### 4.1.3 Shareholding Distribution Status

As of April 27, 2021; Par value: NT\$10

Shareholding Range (Shares)	Number of Shareholders	Total Shares Owned	Holding Percentage (%)
1 ~ 999	129	8,802	0.02
1,000 ~ 5,000	713	1,533,847	3.31
5,001 ~ 10,000	128	1,114,188	2.41
10,001 ~ 15,000	45	593,207	1.28
15,001 ~ 20,000	52	997,000	2.15
20,001 ~ 30,000	45	1,198,000	2.59
30,001 ~ 50,000	36	1,460,000	3.15
50,001 ~ 100,000	53	4,232,125	9.14
100,001 ~ 200,000	26	3,879,250	8.38
200,001 ~ 400,000	16	4,920,192	10.63
400,001 ~ 600,000	1	460,000	0.99
600,001 ~ 800,000	4	260,459	5.63
800,001 ~ 1,000,000	4	3,708,000	8.01
1,000,001 or over	9	19,575,590	42.29
Total	1,261	46,284,750	100.00

#### 4.1.4 Major Shareholders

As of April 27, 2021

Name	Total Shares Owned	Holding Percentage (%)
Qiming Technologies Holding Limited	9,422,000	20.58
Ming-Lung Lee	2,381,556	5.20
Capital Securities Co., Ltd. - CSC Securities (Hong Kong) Limited	1,860,000	4.06
Yu-Hong Lu	1,422,034	3.11
Ing-Ker International Co., Ltd.	1,200,000	2.62
Ting-Sen, Peng	1,133,000	2.47
Yen-Chun, Chiang	1,127,000	2.46
Ching-Lin Lee	1,030,000	2.25
Magnetox (Taiwan) Inc.	1,000,000	2.18
Long Yi International Co., Ltd.	1,000,000	2.18

#### 4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: NT\$; Thousand of Shares

Items		2019	2020	In the current year as of April 30, 2021
Market Price per Share	Highest Market Price	16.65	28.35	30.15
	Lowest Market Price	8.74	4.97	20.25
	Average Market Price	10.88	18.72	25.43
Net Worth per Share	Before Distribution	11.16	6.90	Note 8
	After Distribution	11.16	6.90	Note 8
Earnings per Share	Weighted Average Shares	45,779	45,779	Note 8
	Earnings Per Share (Note 3)	(8.18)	(4.18)	Note 8
Dividends per Share	Cash Dividends		-	-
	Stock Dividends	Dividends from Retained Earnings	-	-
		Dividends from Capital Surplus	-	-
	Accumulated Undistributed Dividends (Note 4)		-	-
Return on Investment	Price / Earnings Ratio (Note 5)	(1.32)	(2.44)	-
	Price / Dividend Ratio (Note 6)	-	-	-
	Cash Dividend Yield Rate (Note 7)	-	-	-

\*If there is increased capital by recapitalization of earnings and capital surplus, the information on market prices and cash dividends retroactively adjusted in accordance with the number of shares issued should be disclosed.

Note 1: List the highest and lowest share price in each year, and calculate the average market price by weighing transacted prices against transacted volumes.

Note 2: Please calculate based on the number of outstanding shares at year-end, and detail the amount of distribution resolved in next year's shareholders meeting.

Note 3: If stock dividends are issued, make retrospective adjustments while disclosing EPS before and after the adjustments.

Note 4: If equity securities are issued with terms that allow dividends to be accrued and accumulated until the year the company makes profit, then the amount of cumulative undistributed dividends up till the current year must be disclosed separately.

Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

Note 8: Up to the date of publication of the annual report on April 30, 2021, the Company's financial statements as of the second quarter had not been reviewed by the Certified Public Accountant. Except net worth per share and earning per share, other data in this column is provided for the year the date of publication of the annual report.

#### 4.1.6 Dividend Policy and Implementation Status

##### A. Dividend policy under Articles of Incorporation

In the event that the Company, according to the final settlement, earns profits in a fiscal year, such profits shall first be set aside to pay taxes, then allocate them in the following sequence: (1) Offset losses; (2) After deducting the item in the preceding paragraph, set aside 10 percent for legal reserve; (3) Set aside for special reserve in accordance with the laws. Any further remaining profits plus undistributed earnings of the previous year and adjustment amount of current year shall be distributed in accordance with the proposal

submitted by the Board, for approval at a shareholders' meeting. The distribution amount in the preceding paragraph shall not be less than 10 percent of the distributable net profit. The dividend distribution policy of the Company shall depend on the current and future investment environment, fund demand, domestic and foreign competition situation, and capital budget, etc., and taking into the shareholders' interest, balancing dividends and the long-term financial planning of the Company. The Board shall submit a proposal for distribution of profits for approval at a shareholders' meeting every year. The Company's annual cash dividends are at least 10 percent of the total dividends. The special reserve set aside for specified purposes shall be reversed into the retained earnings if the appropriating purpose has been completed or the reason for appropriating has disappeared, and be allocated in the sequence in accordance with the preceding paragraph.

B. Proposed dividend allocation for approval at annual shareholders' meeting

The board of directors decided not to pay dividends on March 29, 2021.

C. Anticipated significant change in dividend policy: None.

4.1.7 Impact of stock dividend distribution on business performance and EPS: Not applicable.

4.1.8 Employees' and Directors' Compensations

A. Information Relating to Employees' and Directors' Compensations in the Articles of Incorporation

If the Company has profits in a fiscal year, it shall set aside 1% to 10% of the profits as employee compensation and not more than 3% of the profits as director compensation. Above employee compensation, distributed in the form of shares or in cash shall be approved by the Board. Qualification requirements of employees, including the employees of parents or subsidiaries of the Company meeting certain specific requirements approved by the Board, entitled to receive shares or cash.

The distribution of employee and director compensation shall be submitted to the shareholders' meeting. However, if the Company has accumulated losses, it shall first reserve a certain amount for offsetting losses, then allocate for the employee and director compensation proportionally from the remaining amount according to the first paragraph.

B. The Estimated Basis for Calculating the Employees' and Directors' Compensations

The Company has accumulated losses in 2020, so the compensations of employees and directors are not estimated.

C. Profit Distribution for Employees' and Directors' Compensations for 2020 Approved in Board of Directors Meeting

(1) Employees' and directors' compensations paid in the form of cash or shares and differences/ reasons/ treatments of accrued numbers if any

The Company has accumulated losses in 2020, so the board of directors decided not to distribute any employees' and directors' compensations in the form of cash or shares. There is no deviation between the estimated and actual distribution amount of employees' and directors' compensations.

- (2) Employees' compensation paid in the form of shares and as a percentage of total net income on a parent company only basis and of total employees' compensation

The board of directors of the Company decided not to distribute any employees' compensation for 2020 in the form of shares, and is therefore not applicable.

- D. Earnings distributed as compensation to employees and directors in 2020 (including the number of shares, amounts to be distributed, and stock price), and differences/ reasons/ treatments of accrued numbers if any

The Company has accumulated losses in 2020 and didn't distribute any compensation to employees and directors, so is therefore not applicable.

#### 4.1.9 Buyback of Treasury Stock

The Company didn't buy its shares back in 2020 and 2021 up to April 30.

#### **4.2 Bonds: None.**

#### **4.3 Preferred Shares: None.**

#### **4.4 Global Depository Receipts: None.**

## 4.5 Employee Stock Options

### 4.5.1 Issuance of Employee Stock Options

As of April 30, 2021

Type of Stock Option	2 <sup>nd</sup> Tranche	3 <sup>rd</sup> Tranche	
Approval date	June 27, 2016	May 9, 2017	
Issue date	August 3, 2016	June 8, 2017	July 31, 2017
Units issued (units)	2,000,000	1,120,000	530,000
Shares of stock options to be issued as a percentage of outstanding shares	4.17537%	2.3382%	1.10647%
Duration	10 years	10 years	10 years
Conversion periods	2018/8/3~2026/8/2	2019/6/8~2027/6/7	2019/7/31~2027/7/30
Conversion measures	Issuance of new shares	Issuance of new shares	Issuance of new shares
Conditional conversion periods and percentages	After two full years, 50% of stock options can be exercised. After three full years, 75% of stock options can be exercised. After four full years, 100% of stock options can be exercised.		
Converted shares	375,000	130,750	0
Exercised amount	5,062,500	2,379,650	0
Number of shares yet to be converted	575,000	50,000	0
Adjusted exercise price for those who have yet to exercise their rights	NT\$13.5	NT\$18.2	NT\$19.1
Unexercised shares as a percentage of total issued shares	1.25603%	0.10922%	0%
Impact on possible dilution of shareholdings	After two full years, stock options can be exercised during duration, the influence on shareholders' interests will be gradually diluted, and the dilution effect is limited.		



#### 4.5.2 List of Executives and the Top Ten Employees Receiving Employee Stock Option

As of April 30, 2020

	Title	Name	No. of Stock Options	Stock Options as a Percentage of Shares Issued	Exercised				Unexercised			
					No. of Shares Converted	Strike Price (NT\$)	Amount (NT\$)	Converted Shares as a Percentage of Shares Issued	No. of Shares Converted	Strike Price (NT\$) (Note 1)	Amount (NT\$)	Converted Shares as a Percentage of Shares Issued (Note 2)
Top Ten Employees	Assistant Vice President	Chi-Yeh Hsu	1,175,000	0.98%	375,000	13.5	5,062,500	0.82%	575,000	13.5	7,762,500	1.26%
	Senior Manager	Fang-Bin Li										
	G.M. of Subsidiary (Nantong Sihe)	Shih-Hsien Tang			130,750	18.2	2,379,650	0.29%	50,000	18.2	910,000	0.11%
	Vice President of Subsidiary (Nantong Sihe)	Tsui-Lan Hu										
	Assistant Manager	Shu-Hua Lin										

Note 1: The exercise price of unexercised employee stock options shall be adjusted according to terms of issuance.

Note 2: The total number of shares issued is the number of shares listed in registered data in Ministry of Economic Affairs.

Note 3: (1) The employee left office in March 2021; Assistant Vice President Chi-Yeh Hsu obtained the employee stock option after leaving office.

(2) After the employee's separation, 44,250 shares of the stock warrant lapsed.

**4.6 Issuance of New Restricted Employee Shares: None.**

**4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.**

**4.8 Financing Plans and Implementation: None.**

## V. Operational Highlights

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### A. Main areas of business operations

The current main business of the Company is the manufacture and sales of stainless steel kitchen cutlery. In December 2020, the Company set up the Optoelectronic Business Division to return to the touch panel market.

##### B. Revenue distribution

Unit: NT\$ thousand

Major Divisions	Total Sales in Year 2020	(%) of Total Sales
Stainless Steel Kitchen Cutlery	99,292	98
Touch Panels and Parts	2,249	2
Total	101,541	100

##### C. Main products

The Company's current primary products are stainless steel kitchen cutlery. In December 2020, the Company set up the Optoelectronic Business Division to return to the touch panel market. We target the medium to large panels and focus on 15.6" to 43" products as our main markets.

##### D. New products development

Main products/service	Development Items
Stainless Steel Kitchen Cutlery	Design of new kitchen cutlery (according to market trend)
Touch Panel	Development of full-lamination process and equipment

#### 5.1.2 Industry Overview

##### A. Industry status and development

The Company obtained 100% equity of The King Cut International Co., Ltd, Sheaffer Manufacturing Co., Ltd. (including its subsidiary, Shanghai Sihe Stainless Steel Products Co., Ltd.) on August 26, 2014, whose main business is the manufacture and sales of stainless steel kitchen cutlery.

Considering the diversification of business, the Company set up the Optoelectronic Business Division in December 2020 to return to the touch panel market. We target the medium to large panels and focus on 15.6" to 43" products as our main markets.

#### B. Relationship with up-, middle- and downstream companies

The Company's subsidiary, Nantong Sihe Stainless Steel Products Co., Ltd., is current responsible for the manufacturing of stainless steel kitchen cutlery. According to the different manufacturing processes, it can be divided into forging, casting, Damascus steel (thousand layer steel) and flat plate. The raw materials are stainless steel bars, stainless steel plates, Damascus steel plate and casting parts; this is the industry's upstream, the supplier are steel factories in China and Japan. The Company puts stainless steel bars, stainless steel plates through different processes such as extrusion, forging, heat treatment, welding, grinding and polishing, after the completion of the semi-finished product, the hilt is finished by plastic injection, and then post-processing, grinding, polishing and edge sharpening, ultimately completing the manufacture of a finished cutlery, and then sell the kitchen cutlery to brand owners or directly to consumers.

Targeting the medium to large panels and 15.6" to 43" products, our plant in Hsinchu County specializes in sports and fitness equipment, medical equipment, boats, yachts, and special applications that require high-brightness displays. We have set up a demonstration plant in Zhubei City, Hsinchu County, which focuses on full-lamination touch screens. We plan to start production in small batches and complete related certification in the second quarter.

#### C. Product trends

From a manufacturing technical perspective, according to market research and statistical analysis, carbide knives are replacing high speed steel knives, especially the true forge knife market, due to manufacturing cost of true forging knives gradually decreasing. The durability and high quality of true forging knives are gradually pursued by consumers due to the mass promotion of German brands, market demand is massively increasing, and the market share of new high-speed knives for processing uses is growing as well.

As for the touch panel market, touch panels trend towards a large size; demand for some large display equipment such as fitness equipment and educational equipment with interactive functions is increasing slowly. As to the quality of lamination of touch panel and LCD, optical lamination is far better than air bond. Consumers are now accustomed to the visual effect of fully-laminated touch screens and tend towards the same standard when choosing products. As air bond no longer meets the customers' need, the development of large full-lamination touch screens is expected.

#### D. Product competition

According to statistical research data from market research institutes, global cutlery demand increases continuously, growth is stable in European and North American countries, especially Eastern European countries; the Asia market has bounced back slightly, with great market potential. The Company's core competitive advantage is the manufacturing technique of forging knife, market price and profitability are high, and we're still currently the sole knife manufacturer with true forging capabilities. The

production technology of false forging knives is not high and there are many production peers in China. As a result of the price competition, the gross margin of products produced by the Company is not high. However, it remains one of the processes that customers can choose from.

At this stage, touch panel manufacturers specialized in the full-lamination process for 15" panels or below. The Company set out to focus on the full-lamination process for medium to large panels (15" to 43"), targeting the fitness and medical equipment markets. It aimed to stay ahead in the competition while working strategically with customers to offer flexible, fast service.

### 5.1.3 Research and Development

#### A. Research and development expenditure

Unit: NT\$ thousand

Year	2020	In the current year as of April 30, 2021
R&D expense	6,034	5,713

#### B. Major research and development achievements

Year	New Products Launched
2020	<ol style="list-style-type: none"> <li>1. Change and development of handle of kitchen knife with hollow handle (H116)</li> <li>2. Change and development of handle of Damascus knife (FVW192)</li> <li>3. Development of Viking forging cutlery set (F205) in North America</li> <li>4. Development of Thermos Japanese cutlery set (FW58) in China</li> </ol>
In the current year as of April 30, 2021	<ol style="list-style-type: none"> <li>1. Development of Calphalon forging cutlery set (F206)</li> <li>2. Development of antibacterial and anti-mold knives (FK82 &amp; PK116)</li> <li>3. Development of 15" to 32" full-lamination process and equipment</li> </ol>

### 5.1.4 Long-term and Short-term Development

#### A. Short-term development

- (1) Fully cooperate with the major customer to expand sales in China.
- (2) Develop new cutlery to satisfy current client demands.
- (3) Actively develop new customers to reduce the risk of sales concentration.
- (4) Gradually increase share in the touch panel market.

#### B. Long-term development: Considering going concern, actively program other operating projects based on the technical business capabilities of the entire management.

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### A. Sales (dervice) region

Unit: NT\$ thousand

Area	2019		2020	
	Amount	%	Amount	%
U.S.A	171,908	96.36	94,953	93.51
China	4,103	2.30	4,067	4.01
Taiwan	1,809	1.01	2,249	2.21
Others	580	0.33	272	0.27
Total Revenues	178,400	100.00	101,541	100.00

#### B. Market Share (%) of Major Product Categories

The Company's primary operating model of stainless steel kitchen cutlery is undertaking OEM/ODM businesses from various cutlery brands from U.S.A.. The main customers are all European and American brands. All stainless steel kitchen cutlery are manufactured in Nantong Sihe, however there are plenty production peers in the kitchen cutlery industry, competition is highly intense.

The Optoelectronic Business Division is a newly established unit. Its factory officially started operation in the second quarter of 2020 and is expected to obtain validation and orders from several customers in the second half of 2020. At present, medium to large full-lamination touch panels are a blue ocean market to be explored.

#### C. Market analysis of major product categories

Based on market statistical data and past order statuses, kitchen cutlery's global market scale could maintain similar compound growth rate in the coming years.

As the call for user interaction increases in the medium to large touch panel market, demand for fitness, medical, and educational equipment is expected to emerge gradually.

#### D. Competitive niche

Stainless steel kitchen cutlery can be divided into forging, casting, Damascus steel and flat plate knives according to the manufacturing processes, with forging knives being the highest of quality, more difficult of process. Nantong Sihe is the sole knife manufacturer with true forging capabilities in China, its manufacturing process is one and the same with major German manufacturers, and is currently still the leading manufacture technique in China.

The Optoelectronic Business Division mainly focuses on medium to large full-lamination touch screens, distinguishing the Company from the existing manufacturers that can offer only 15" touch screens or less.

## E. Favorable and Unfavorable Factors in the Long Term

Due to the fact that the primary operating medel is currently undertaking OEM/ODM businesses of major American cutlery brands, mastering knife forging techniques and as the sole true forging knife manufacturer in China, Nantong Sihe has absolute advantage on competing for world-class OEM clients. The Company will vigorously develop this technique to apply on exploiting stainless steel cutlery market in other countries.

It is unclear whether the pandemic has taken a toll on overseas customers; as a result, Sheaffer Manufacturing Co., Ltd. has planned early to promote mid- to high-end forging knives in the domestic market.

In the wake of the pandemic, the sales of fitness equipment from the Optoelectronic Business Division boomed due to the stay-at-home economy. Medium to large full-lamination screens create a more comfortable user experience. It is expected that medium to large touch screens will become another mainstream.

### 5.2.2 Production Procedures of Main Products

- A. Forging knives: Highest of processing techniques, the production process adopts the method of heating and forging the stainless steel bar material, changing the grain size and the flow direction of the metal fiber, increasing the mechanical properties, tensile strength and elongation. The advantages of forging are high strength and consistent grain structure direction.
- B. Casting knives: It refers to the process of pouring the liquefied stainless steel water into the hilt mold with a specific shape, and welding the knives after cooling and molding. Casting knives have the advantages of low cost and various designs; the disadvantages are that the crystallization is non-directional, and the grain distribution is loose, and the casting process is prone to bubbles and the weld is easily broken.
- C. Damascus steel knives: It is a new type of knife-making steel developed by Takefu Special Steel Co., Ltd., a famous steel mill in Japan. Damascus steel knives are characterized by 67-layer stainless steel folding forging, which has good corrosion resistance, high carbon steel in the middle steel core and has a very high hardness and wear resistance.
- D. Touch panels: The technical bottleneck of large touch lamination is the yield rate. How to avoid bubbles and mura is the key to a better yield rate. The Company's proven lamination technology, along with materials, equipment, and an optimized process, can solve this problem effectively.

### 5.2.3 Supply Status of Main Materials

The main raw materials are stainless steel bars and stainless steel plates. The stainless steel bars are supplied by two suppliers in China. Since the stainless steel raw material is the standard product, the main source of raw material supply is secure.

The key material of touch panels is OCA, a mature, risk-free source from manufacturers in Taiwan, Japan, and China.

## 5.2.4 Major Suppliers and Clients

### A. Major suppliers in the past two years

Unit: NT\$ thousand

Item	2019				2020				In the current year as of March 31, 2021			
	Company	Procurement amount	% of consolidated procurement	Relation to the Company	Company	Procurement amount	% of consolidated procurement	Relation to the Company	Company	Procurement amount	% of consolidated procurement	Relation to the Company
1	A	33,661	35.21	-	A	19,925	31.75	-	Up to the date of publication of the annual report on April 30, 2021, the Company's financial statements as of the first quarter had not been reviewed by the CPA.			
2	B	21,771	22.77	-	B	17,693	28.19	-				
3	C	13,005	13.60	-	C	3,307	5.27	-				
	others	27,168	28.42		others	21,833	34.79					
	Total	95,605	100.00		Total	62,758	100					

Explanation of increase and decrease: Due to changes in market trends and customer needs.

### B. Major clients in the past two years

Unit: NT\$ thousand

Item	2018				2019				In the current year as of March 31, 2021			
	Company	Net Revenue	% of consolidated revenue	Relation to the Company	Company	Net Revenue	% of consolidated revenue	Relation to the Company	Company	Net Revenue	% of consolidated revenue	Relation to the Company
1	A	169,769	95.16	-	A	86,802	85.48	-	Up to the date of publication of the annual report on April 30, 2021, the Company's financial statements as of the first quarter had not been reviewed by the CPA.			
	others	8,631	4.84		others	14,739	14.52					
	Total	178,400	100.00		Total	101,541						

Explanation of increase and decrease: There has been no significant increase or decrease in the amount and proportion of sales to major customers in the past two years.

### 5.2.5 Production in the Past Two Years

Unit: NT\$ thousand

Output	Year	2019			2020		
		Capacity (thousand pieces)	Quantity (thousand pieces)	Amount	Capacity (thousand pieces)	Quantity (thousand pieces)	Amount
Major Products							
Stainless Steel Kitchen Cutlery		390	328	53,563	315	265	43,275

### 5.2.6 Shipments and Sales in the Past Two Years

Unit: NT\$ thousand

Shipments & Sales	Year	2019				2020			
		Local		Export		Local		Export	
	Major Products	Quantity (thousand pieces)	Amount	Quantity (thousand pieces)	Amount	Quantity (thousand pieces)	Amount	Quantity (thousand pieces)	Amount
Stainless Steel Products- Kitchen Cutlery		2	298	820	175,213	-	-	465	99,104
Stainless Steel Products- Others		-	-	-	429	-	-	-	189
Hard Disk Repair Services		-	-	48	2,460	-	-	-	-
Touch Panel		-	-	-	-	1	2,248	-	-
Total		2	298	868	178,102	1	2,248	465	99,293

### 5.3 Human Resources

Year		2019	2020	2021 (As of April 30)
Number of Employees	Manufacturing Personnel	73	44	47
	Non-Manufacturing Personnel	39	29	39
	Total	112	73	86
Average Age		43.59	44.12	44.65
Average Years of Service		1.24	2.53	1.97
Education level	Ph.D.	-		
	Masters	2.68	1.37	3.49
	Bachelor's Degree	21.43	18.53	26.20
	Senior High School	16.07	15.02	15.07
	Below Senior High School	59.82	65.07	55.24



## 5.4 Environmental Protection Expenditure

Loss due to environmental pollution (including any compensation paid and any violations of environmental protection laws or regulations found in environmental inspection) in 2020 and up to Annual Report publication date in 2021, with disclosure of the amounts current and potential occurrence in the future and the Company's countermeasures: None.

## 5.5 Labor Relations

5.5.1 Facts about a variety of fringe benefits for employees for higher education, training programs, retirement system and the enforcement thereof, accords reached by and between the labor and management sides, facts regarding the efforts and measures to safeguard employees' interests

A. Measures regarding fringe benefits for employees and the enforcement thereof

- (1) Employee compensation distribution and share subscription.
- (2) Performance bonuses.
- (3) Labor insurance and national health insurance.
- (4) Wedding gift, funeral allowance, maternity allowance, hospitalization consolation, etc.
- (5) Year-end banquet and magazines.

B. Higher education, training programs and the enforcement thereof

The Company regularly arranges on-the-job training for employees to strengthen their professional skills and knowledge.

C. Retirement system and enforcement thereof

The Company was established on October 24, 2008, and adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

According to the "LPA", the conditions and procedures for employees to apply for retirement are as follows:

- (1) An employee who is sixty years or older may claim for retirement payment according to the following regulations:
  - a. An employee whose seniority exceeds fifteen years may choose to receive either monthly pension payments or a lump-sum pension payment.
  - b. An employee whose seniority is less than fifteen years shall claim for a lump-sum pension payment.
- (2) An employee shall file and submit an application and relevant documents to the Bureau of Labor Insurance to claim for the pension; the application procedures and documents required shall be prescribed by the Bureau of Labor Insurance.

The employees of the subsidiaries in China and other countries are members of state-managed retirement benefit plans operated by the local government. Each subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

D. Other major accords and enforcement thereof

In order to maintain the harmony between the employer and the employee, the Company adopts open two-way communication to publicize the Company's policies and understand employees' opinions. Labor relations have been harmonious since the Company's foundation, no losses have occurred due to labor dispute.

E. Efforts to safeguard employees in their interests and the enforcement thereof

(1) Employee safety

- a. Manufacturers are arranged to carry out fire safety inspections every year. The workplace is cleaned daily and disinfected twice a week. The equipments such as lifts, air conditioners, water dispensers, pressure vessels, etc. are maintained and inspected monthly. From time to time, external agencies are engaged to test the noise, air, dust, water, electricity and other aspects of the working environment.
- b. The Company conducts fire prevention training and drill for employees every spring and autumn to enhance employees' knowledge of fire prevention.
- c. Provide labor protection products such as masks, earplugs, and protective glasses, and check the wearing situation of relevant employees daily to reduce the incidence of accidents or occupational injuries.
- d. Arrange personnel training from time to time and obtain the qualification of production safety personnel.
- e. The Company has an access control system and employs security personnel to maintain office and factory security.

(2) Employee insurances

The Company provides employees with labor insurance (including occupational disaster insurance) and national health insurance in accordance with the laws and regulations.

(3) Health

- a. The Company has a health examination system for employees, employees with one year of service are eligible for health examination expense compensation every 1~2 years according to their age. The subsidiary in China arranges for health examination for employees in occupational sanitary hazard sites once every year, and annual health examinations for employees of more than one year of service.
- b. In order to protect the rights and interests of employees, the Company has stipulated the provisions of appeal and punishment for the prevention of sexual harassment in the work rules. There is also an employee suggestion box to provide a channel for employees to appeal.

5.5.2 In the latest year until the date as of Annual Report issuance, the impairment incurred by labor dispute (including any violations of the Labor Standards Act found in labor inspection), with disclosure of the amounts current and potential occurrence in the future and the Company's countermeasures: No labor dispute has taken place in the Company.

## 5.6 Important Contracts

Contract Nature	Counterparty	Contract Period	Major Contents	Restrictions
Credit Facility	Morgan Stanley Asia International Limited, Singapore Branch	There is no expiration date from April 21, 2014, but the contract may be terminated at any time.	Wealth management loan	None
Credit Facility	Nomura Singapore Limited	2017/02/07~ 2021/03/08	Wealth management loan	None
Sales incentive agreement	Client A	2017/12/22~ 2021/12/31	Provide Client A with a total of US\$935,000 in sales awards from 2018 to 2021.	None

## VI. Financial Information

### 6.1 Five-Year Condensed Balance Sheets and Statements of Comprehensive Income

#### 6.1.1 Condensed balance sheets and statements of comprehensive income

##### A. Condensed balance sheet (consolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for the Last Five Years (Note 1)					March 31, 2021
		2016	2017	2018	2019	2020	
Current assets		2,168,664	2,150,433	1,266,248	960,581	346,020	Note 2
Property, Plant and Equipment		57,524	39,726	48,028	23,152	14,047	
Intangible assets		237,408	233,155	204,999	5,014	292	
Other assets		59,257	53,880	37,588	20,279	26,517	
Total assets		2,522,853	2,477,194	1,556,863	1,009,026	386,876	
Current liabilities	Before distribution	1,232,150	1,393,251	706,208	482,041	45,507	
	After distribution	1,280,050	1,393,251	706,208	482,041	-	
Non-current liabilities		19,232	22,875	4,669	16,066	25,561	
Total liabilities	Before distribution	1,251,382	1,416,126	710,877	498,107	71,068	
	After distribution	1,299,282	1,416,126	710,877	498,107	-	
Equity attributable to shareholders of the parent		1,030,323	1,271,471	1,061,068	845,986	510,919	
Capital stock		479,000	457,790	457,790	457,790	457,790	
Capital surplus		639,952	623,081	628,079	452,600	55,178	
Retained earnings	Before distribution	165,342	(51,463)	(177,321)	(391,222)	(191,419)	
	After distribution	117,442	(51,463)	(177,321)	(391,222)	-	
Other equity interest		(12,823)	31,660	(62,562)	(8,249)	(5,741)	
Treasury stock		-	-	-	-	-	
Non-controlling interest		-	-	-	-	-	
Total equity	Before distribution	1,271,471	1,061,068	845,986	510,919	315,808	
	After distribution	1,223,571	1,061,068	845,986	510,919	315,808	

Note 1: Financial information is audited by CPAs.

Note 2: Up to the date of publication of the annual report on April 30, 2021, the Company's financial statements as of the first quarter had not been reviewed by the CPA.

B. Condensed balance sheet (unconsolidated)

Unit: NT\$ thousand

Year		Financial Summary for the Last Five Years (Note)					March 31, 2021
		2016	2017	2018	2019	2020	
Item							
Current assets		158,798	N/A	58,682	62,808	62,494	Not applicable
Property, Plant and Equipment		-	-	-	-	-	
Intangible assets		10	374	264	75	2	
Other assets		1,249,110	1,154,903	918,061	606,457	370,353	
Total assets		1,407,918	1,196,973	977,007	669,340	432,849	
Current liabilities	Before distribution	117,922	120,423	130,911	155,901	116,614	
	After distribution	165,822	120,423	130,911	155,901	-	
Non-current liabilities		18,525	15,482	110	2,520	427	
Total liabilities	Before distribution	136,447	135,905	131,021	158,421	117,041	
	After distribution	184,347	135,905	131,021	158,421	-	
Equity attributable to shareholders of the parent		1,271,471	1,061,068	845,986	510,919	315,808	
Capital stock		479,000	457,790	457,790	457,790	457,790	
Capital surplus		639,952	623,081	628,079	452,600	55,178	
Retained earnings	Before distribution	165,342	(51,463)	(177,321)	(391,222)	(191,419)	
	After distribution	117,442	(51,463)	(177,321)	(391,222)	-	
Other equity interest		(12,823)	31,660	(62,562)	(8,249)	(5,741)	
Treasury stock		-	-	-	-	-	
Non-controlling interest		-	-	-	-	-	
Total equity	Before distribution	1,271,471	1,061,068	845,986	510,919	315,808	
	After distribution	1,223,571	1,061,068	845,986	510,919	315,808	

Note: Financial information is audited by CPAs.

C. Condensed statement of comprehensive income (consolidated)

Unit: NT\$ thousand

Item	Financial Summary for the Last Five Years (Note 1)					In the current year as of March 31, 2021
	2016	2017	2018	2019	2020	
Operating revenue	556,051	288,284	170,476	178,400	105,541	Note 2
Gross profit (loss)	39,695	18,572	(7,945)	(16,970)	(7,119)	
Income (loss) from operations	(80,768)	(159,515)	(166,139)	(162,541)	(56,603)	
Non-operating income and expenses	266,671	(4,608)	53,524	(216,632)	(135,421)	
Income (loss) before tax	185,903	(164,123)	(112,615)	(379,173)	(192,024)	
Profit (loss) from continuing operations	146,436	(168,905)	(112,415)	(374,561)	(191,419)	
Profit (loss) from discontinued operations	-	-	-	-	-	
Net income (loss)	146,436	(168,905)	(112,415)	(374,561)	(191,419)	
Other comprehensive income (loss) (income after tax)	148,460	44,483	(107,665)	37,753	2,508	
Total comprehensive income (loss)	294,896	(124,422)	(220,080)	(336,808)	(188,911)	
Net income (loss) attributable to shareholders of the parent	146,436	(168,905)	(112,415)	(374,561)	(191,419)	
Net income attributable to non-controlling interest	-	-	-	-	-	
Comprehensive income attributable to shareholders of the parent	294,896	(124,422)	(220,080)	(336,808)	(188,911)	
Comprehensive income attributable to non-controlling interest	-	-	-	-	-	
Earnings (loss) per share (NT\$)	3.04	(3.63)	(2.46)	(8.18)	(4.18)	

Note 1: Financial information is audited by CPAs.

Note 2: Up to the date of publication of the annual report on April 30, 2021, the Company's financial statements as of the first quarter had not been reviewed by the CPA.

D. Condensed statement of comprehensive income (unconsolidated)

Unit: NT\$ thousand

Item	Year	Financial Summary for the Last Five Years (Note)					In the current year as of March 31, 2021
		2016	2017	2018	2019	2020	
Operating revenue		-	-	-	249	48,037	Not applicable
Gross profit (loss)		-	-	-	12	2,799	
Income (loss) from operations		(32,732)	(27,896)	(26,625)	(22,405)	(20,609)	
Non-operating income and expenses		208,632	(141,263)	(85,554)	(352,161)	(170,488)	
Income (loss) before tax		175,900	(169,159)	(112,179)	(374,566)	(191,097)	
Profit (loss) from continuing operations		146,436	(168,905)	(112,415)	(374,561)	(191,419)	
Profit (loss) from discontinued operations		-	-	-	-	-	
Net income (loss)		146,436	(168,905)	(112,415)	(374,561)	(191,419)	
Other comprehensive income (loss) (income after tax)		148,460	44,483	(107,665)	37,753	2,508	
Total comprehensive income (loss)		294,896	(124,422)	(220,080)	(336,808)	(188,911)	
Net income (loss) attributable to shareholders of the parent		146,436	(168,905)	(112,415)	(374,561)	(191,419)	
Net income attributable to non-controlling interest		-	-	-	-	-	
Comprehensive income attributable to shareholders of the parent		294,896	(124,422)	(220,080)	(336,808)	(188,911)	
Comprehensive income attributable to non-controlling interest		-	-	-	-	-	
Earnings (loss) per share (NT\$)		3.04	(3.63)	(2.46)	(8.18)	(4.18)	

Note: Financial information is audited by CPAs.

6.1.2 Independent auditors' names and their audit opinions for the past five years

Year	Accounting firm	Name of CPA	Opinion
2016	Deloitte & Touche	Chien-Liang Liu, Wen-Chin Lin	Unqualified opinion
2017	Deloitte & Touche	Chien-Liang Liu, Wen-Chin Lin	Unqualified opinion
2018	Deloitte & Touche	Chien-Liang Liu, Wen-Chin Lin	Unqualified opinion
2019	Deloitte & Touche	Pei-De Chen, Wen-Chin Lin	Unqualified opinion
2020	Deloitte & Touche	Pei-De Chen, Wen-Chin Lin	Unqualified opinion

## 6.2 Five-Year Financial Analysis

### 6.2.1 Financial analysis (consolidated)

Item		Financial Analysis for the Last Five Years (Note 1)					In the current year as of March 31, 2021
		2016	2017	2018	2019	2020	
Financial structure (%)	Debt ratio	49.60	57.17	45.66	49.37	18.37	Note 2
	Ratio of long-term capital to property, plant and equipment	2,210.33	2,670.97	1,761.44	2,206.80	2,248.2	
Solvency (%)	Current ratio	176.01	154.35	179.30	199.27	760.37	
	Quick ratio	165.45	141.32	159.70	180.31	653.05	
	Interest coverage ratio (times)	17.88	(6.59)	(3.37)	(21.49)	(59.97)	
Operating performance	Accounts receivable turnover (times)	6.44	4.88	4.50	3.58	2.50	
	Average collection days	57	75	81	102	146	
	Inventory turnover (times)	5.63	2.40	1.81	2.92	2.88	
	Accounts payable turnover (times)	10.53	6.83	6.99	8.83	6.37	
	Average days in sales	65	152	202	125	127	
	Property, plant and equipment turnover (times)	8.00	5.93	3.89	5.01	5.46	
	Total assets turnover (times)	0.25	0.12	0.08	0.14	0.15	
Profitability	Return on total assets (%)	6.92	(6.00)	(4.56)	(28.19)	(27.08)	
	Return on stockholders' equity (%)	12.72	(14.48)	(11.79)	(55.21)	(46.31)	
	Pre-tax income to paid-in capital (%)	38.81	(35.85)	(24.60)	(82.83)	(41.95)	
	Profit ratio (%)	26.33	(58.59)	(65.94)	(209.96)	(188.51)	
	Earnings per share (NT\$)	3.04	(3.63)	(2.46)	(8.18)	(4.18)	
Cash flow	Cash flow ratio (%)	-	-	-	-	-	
	Cash flow adequacy ratio (%)	52.36	13.79	-	-	-	
	Cash reinvestment ratio (%)	-	-	-	-	-	
Leverage	Operating leverage	0.74	0.88	0.84	0.71	0.63	
	Financial leverage	0.88	0.87	0.87	0.91	0.95	



The reasons for the changes reach 20% in the financial ratios over the last two years are as follows:

1. Increase in current ratio: Mainly due to the disposal of corporate bonds and the repayment of short-term loans.
2. Increase in quick ratio: Mainly due to the disposal of corporate bonds and the repayment of short-term loans.
3. Increase in interest coverage ratio (times): Mainly due to the decrease in interest expenses as a result of the repayment of short-term loans.
4. Decrease in ratio of pre-tax income to paid-in capital, profit ratio, and earnings per share: Mainly due to the decrease in net losses.

Note 1: Financial information is audited by CPAs.

Note 2: Up to the date of publication of the annual report, the Company's financial statements as of the first quarter had not been reviewed by the CPA.

Note 3: If the net cash flow from operating activities is net cash outflow, the cash flow analysis will not be calculated

## 6.2.2 Financial analysis (unconsolidated)

Item		Financial Analysis for the Last Five Years (Note 1)					In the current year as of March 31, 2021
		2016	2017	2018	2019	2020	
Financial structure (%)	Debt ratio	9.69	11.35	13.41	23.67	27.04	Not applicable
	Ratio of long-term capital to property, plant and equipment	-	-	-	-	-	
Solvency (%)	Current ratio	134.66	34.62	44.83	40.29	53.59	
	Quick ratio	130.59	30.22	40.76	36.93	49.21	
	Interest coverage ratio (times)	336.67	(215.27)	(177.67)	(484.16)	(246.92)	
Operating performance	Accounts receivable turnover (times)	-	-	-	2.07	2.65	
	Average collection days	-	-	-	176	138	
	Inventory turnover (times)	-	-	-	-	-	
	Accounts payable turnover (times)	-	-	-	2.08	1.99	
	Average days in sales	-	-	-	-	-	
	Property, plant and equipment turnover (times)	-	-	-	-	-	
	Total assets turnover (times)	-	-	-	-	-	
Profitability	Return on total assets (%)	10.57	(12.92)	(10.30)	(45.43)	(34.67)	
	Return on stockholders' equity (%)	12.72	(14.48)	(11.79)	(55.21)	(46.31)	
	Pre-tax income to paid-in capital (%)	36.72	(36.95)	(24.50)	(81.82)	(41.74)	
	Profit ratio (%)	-	-	-	(150,426.10)	(398.48)	
	Earnings per share (NT\$)	3.04	(3.63)	(2.46)	(8.18)	(4.18)	
Cash flow	Cash flow ratio (%)	-	-	-	-	-	
	Cash flow adequacy ratio (%)	310.17	227.66	500.97	-	-	
	Cash reinvestment ratio (%)	-	-	-	-	-	
Leverage	Operating leverage	1.00	1.00	1.00	0.93	0.86	
	Financial leverage	0.98	0.98	0.97	0.97	0.98	
<p>The reasons for the changes reach 20% in the financial ratios over the last two years are as follows:</p> <ol style="list-style-type: none"> <li>1. Current ratio: Mainly due to the disposal of corporate bonds and the repayment of short-term loans.</li> <li>2. Quick ratio: Mainly due to the disposal of corporate bonds and the repayment of short-term loans.</li> <li>3. Decrease in interest coverage ratio: Mainly due to the decrease in interest expenses as a result of the repayment of short-term loans.</li> <li>4. Decrease in ratio of pre-tax income to paid-in capital, profit ratio, and earnings per share: Mainly due to the decrease in net losses.</li> </ol>							

Note 1: Financial information is audited by CPAs.

Note 2: If the net cash flow from operating activities is net cash outflow, the cash flow analysis will not be calculated

Note 3: Calculation formula for financial analysis are as follows:

1. Financial structure

- (1) Debt ratio =  $\text{Total liabilities} / \text{Total assets}$
- (2) Ratio of long-term capital to property, plant and equipment =  $(\text{Total equities} + \text{Noncurrent liabilities}) / \text{Net property, plant and equipment}$

2. Solvency

- (1) Current ratio =  $\text{Current assets} / \text{Current liabilities}$
- (2) Quick ratio =  $(\text{Current assets} - \text{Inventory} - \text{Prepaid expenses}) / \text{Current liabilities}$
- (3) Interest coverage ratio =  $\text{Income before interest and taxes} / \text{Interest expense}$

3. Operating performance

- (1) Accounts receivable turnover (including accounts receivable and notes receivable incurred as a result of business operation) =  $\text{Net revenue} / \text{Average accounts receivable}$
- (2) Average collection days =  $365 / \text{Accounts receivable turnover}$
- (3) Inventory turnover =  $\text{Cost of goods sold} / \text{Average inventory}$
- (4) Accounts payable turnover (including accounts payable and notes payable incurred as a result of business operation) =  $\text{Cost of goods sold} / \text{Average accounts payable}$
- (5) Average days in sales =  $365 / \text{Inventory turnover}$
- (6) Property, plant and equipment turnover =  $\text{Net revenue} / \text{Average net property, plant and equipment}$
- (7) Total assets turnover =  $\text{Net revenue} / \text{Average total assets}$

4. Profitability

- (1) Return on total assets =  $[\text{Net income} + \text{Interest expense} \times (1 - \text{Tax rate})] / \text{Average total assets}$
- (2) Return on stockholders' equity =  $\text{Net income} / \text{Average equity}$
- (3) Profit ratio =  $\text{Net income} / \text{Net sales}$
- (4) Earnings per share =  $(\text{Net income or loss attributable to shareholders of the parent} - \text{Preferred stock dividends}) / \text{Weighted average outstanding shares}$

5. Cash flow

- (1) Cash flow ratio =  $\text{Cash flow from operating activities} / \text{Current liabilities}$
- (2) Cash flow adequacy ratio =  $\text{Net cash flow from operating activities for the past 5 years} / (\text{Capital expenditure} + \text{Increases in inventory} + \text{Cash dividends for the past 5 years})$
- (3) Cash reinvestment ratio =  $(\text{Cash flow from operating activities} - \text{Cash dividends}) / (\text{Gross property, plant and equipment} + \text{Long-term investments} + \text{Other noncurrent assets} + \text{Working capital})$

6. Leverage

- (1) Operating leverage =  $(\text{Net revenue} - \text{Variable operating costs and expenses}) / \text{Operating income}$
- (2) Financial leverage =  $\text{Operating income} / (\text{Operating income} - \text{Interest expense})$

### **6.3 Audit Committee's Report for the Most Recent Year**

#### **Audit Committee's Review Report**

The Board of Directors has submitted the Company's 2020 business report, financial statements (including consolidated and parent company only financial statements), and proposal for deficit compensation. The independent auditors Pei-De Chen and Wen-Chin Lin of Deloitte & Touche have audited the financial statements and issued audit reports relating to the financial statements. The Audit Committee audited the aforementioned business report, financial statements, and proposal for deficit compensation and found no unconformities. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report to the 2021 Annual General Meeting of shareholders for ratifications.

Mutto Optronics Corporation

Chairman of the Audit Committee: Bruce Ho

March 29, 2021

### **6.4 Consolidated Financial Statements for the Years Ended December 31, 2020 and 2019**

Please refer to pages 93 to 149.

### **6.5 Parent Company Only Financial Statements for the Years Ended December 31, 2020 and 2019**

Please refer to pages 150 to 198.

### **6.6 Financial Difficulties for the Company and its Affiliates: None.**

## VII. Review of Financial Conditions, Financial Performance, and Risk Management

### 7.1 Analysis of Financial Status

7.1.1 The main reasons for any material change in assets, liabilities, or equity during the past 2 fiscal years, and describe the effect thereof

Unit: NT\$ thousand

Item \ Year	2019	2020	YoY change	
			Amount	%
Current assets	960,581	346,020	(614,561)	-63.98%
Property, plant and equipment	23,152	14,047	(9,105)	-39.33%
Intangible assets	5,014	292	(4,722)	-94.18%
Other assets	20,279	26,517	6,238	30.76%
Total assets	1,009,026	386,876	(622,150)	-61.66%
Current liabilities	482,041	45,507	(436,534)	-90.56%
Non-current liabilities	16,066	25,561	9,495	59.10%
Total liabilities	498,107	71,068	(427,039)	-85.73%
Paid-in capital	457,790	457,790	0	0.00%
Capital surplus	452,600	55,178	(397,422)	-87.81%
Retained earnings	(391,222)	(191,419)	199,803	-51.07%
Treasury stock	-	-	-	-
Other equity	(8,249)	(5,741)	2,508	-30.40%
Non-controlling interest	-	-	-	-
Total equity	510,919	315,808	(195,111)	-38.19%

In the case of a change of 20% or more in the past 2 fiscal years, and the amount of the change reaching NT\$10,000 thousand, the analysis shall be as follows:

1. Decrease in current assets: Mainly due to the disposal of overseas corporate bonds held by the Group.
2. Decrease in property, plant and equipment: Mainly due to the provision of depreciation expenses based on service years.
3. Decrease in intangible assets: Mainly due to the disposal of computer software by the subsidiary.
4. Decrease in other assets: Mainly due to the renewal of the lease on the subsidiary's staff dormitory in Nantong, China.
5. Decrease in current liabilities: Mainly due to the disposal of overseas corporate bonds and the repayment of loans from financial institutions.
6. Decrease in non-current liabilities: Mainly due to the lease liabilities arising from the renewal of the lease on the staff dormitory of Sheaffer Manufacturing Co., Ltd. in Nantong, China.
7. Decrease in capital surplus: Mainly due to the make-up for losses.
8. Decrease in retained earnings: Mainly due to the make-up for losses from capital surplus.
9. Decrease in other equity: Mainly due to the exchange difference on translation of foreign financial statements, NT\$3,091 thousand.

7.1.2 Describe the measures to be taken in response while the influence is significant

The above differences are normal operating changes and have no significant impact on the Company's financial status.

## 7.2 Analysis of Financial Performance

7.2.1 The main reasons for any material change in operating revenues, operating income, or income before tax during the past 2 fiscal years

Unit: NT\$ thousand

Item	Year	2019	2020	YoY change	
				Amount	%
Operating revenue		178,400	101,541	(76,859)	-43.08%
Operating costs		195,370	108,660	(86,710)	-44.38%
Gross profit (loss)		(16,970)	(7,119)	9,851	-58.05%
Operating expenses		145,571	49,484	(96,087)	-66.01%
Loss from operations		(162,541)	(56,603)	105,938	-65.18%
Non-operating income and expenses		(216,632)	(135,421)	81,211	-37.49%
Loss from continuing operations before tax		(379,173)	(192,024)	187,149	-49.36%
Income tax expense (benefit)		(4,612)	605	5,217	-113.12%
Loss from continuing operations		(374,561)	(191,419)	183,142	-48.90%
Profit (loss) from discontinued operations		-	-	-	-
Net loss		(374,561)	(191,419)	183,142	-48.90%
Other comprehensive income (loss) (income after tax)		37,753	2,508	(35,245)	-93.36%
Total comprehensive loss		(336,808)	(188,911)	147,897	-43.91%

In the case of a change of 20% or more in the past 2 fiscal years, and the amount of the change reaching NT\$10,000 thousand, the analysis shall be as follows:

1. Decrease in operating revenue, operating costs, gross profit, and operating expenses: The YoY decrease of NT\$76,859 thousand in operating revenue and the YoY decrease of NT\$86,710 thousand in operating costs were mainly due to the complete shutdown of the subsidiary's factory in Nantong, China in the wake of the COVID-19 pandemic.
2. Decrease in operating expenses: Mainly due to a sharp reduction in operating costs as a result of the Group's resolution to liquidate the subsidiary repairing hard drives.
3. Decrease in non-operating income and expenses (NT\$81,211 thousand): Mainly due to the recognition of impairment of Sheaffer Manufacturing Co., Ltd.'s goodwill and customer relationships in 2019.
4. Decrease in net loss (NT\$183,142 thousand): Refer to (1) and (2).
5. Decrease in other comprehensive income (loss) (income after tax): Mainly due to the decrease of NT\$35,245 thousand in unrealized valuation gains or losses as a result of the disposal of bonds.

7.2.2 Sales volume forecast in 2020 and the basis thereof, and the effect upon the Company's finance and business as well as measures to be taken in response

The sales volume forecast of the Company in 2021 for the stainless steel kitchen cutlery is 1,648 thousand sets based on the future market overview and historical sales experience.

### 7.3 Analysis of Cash Flow

#### 7.3.1 Cash flow analysis for the current year

Unit: NT\$ thousand

Item	Year	2019	2020	Difference
Cash inflow (outflow) from operating activities		(67,761)	1,561	69,322
Cash inflow (outflow) from investment activities		274,855	557,369	282,514
Cash inflow (outflow) from financing activities		(207,244)	(420,078)	(212,834)
Net cash decrease		(143)	133,352	133,495
Analysis of cash flow change:				
1. Net cash flows generated from operating activities increased by NT\$69,322 thousand mainly due to the net losses before tax.				
2. Net cash flows generated from investing activities increased by NT\$282,514 thousand mainly due to the disposal of financial assets through other comprehensive income acquired in 2019, NT\$249,390.				
3. Net cash flows used in financing activities increased by NT\$212,834 thousand mainly due to the increase in the repayment of short-term loans as a result of financial leverage per business needs and changes in market trends.				

#### 7.3.2 Corrective measures to be taken in response to illiquidity and analyses on the cash liquidity in one year ahead

Unit: NT\$ thousand

Cash balance, beginning of the year	Forecast net cash flow from operations	Forecast cash inflow from investment and financing activities	Expected cash surplus (deficit)	Source of funding for cash deficits	
				Investment plans	Financing plans
29,150	(24,116)	28,001	33,035	-	-
1. Analysis of changes in cash flow in one year ahead					
(1) Net cash flow from operations: The Company estimates that the cash outflow from operating activities will be NT\$24,116 thousand in 2020 according to the sales receipts, purchase payment, operating expenses and interest income generated during the operation cycle.					
(2) Cash inflows from investment and financing activities: The Company expects to dispose of foreign corporate bonds, repay short-term loans and expenditure on lease liabilities, and is expected to generate NT\$28,001 thousand cash inflows.					
2. There is no cash shortage in the current year.					

#### 7.4 Analysis of Major Capital Expenditures and its Impact on Finance and Operations: None.

## **7.5 Investment Policies, Reasons for Profit or Loss, Plans for Improvement, and Future Investment Plan**

The Company engages in the business of manufacture and sales of stainless steel kitchen cutlery and services of hard disk repair and data erasure through the investments in subsidiaries accounted for using equity method. The related investment is as follows:

### **7.5.1 Manufacture and sales of stainless steel kitchen cutlery**

The Company engages in the manufacture and sales of stainless steel kitchen cutlery through directly and indirectly invested in Sheaffer Manufacturing Co., Ltd., The King Cut International Co., Ltd., Shanghai Sihe Stainless Steel Products Co., Ltd. and Nantong Sihe Stainless Steel Products Co., Ltd.. In 2020, this business suffered a loss after tax. As customers struggled to clear out excess inventory against the sluggish market due to the outbreak of the pandemic, utilization was overly low, resulting in the gross operating loss. Because of the concentration of sales customers of stainless steel kitchen cutlery, the amount of revenue is easy to fluctuate greatly with the change of orders of large customers. In the future, we will actively develop new customers, reduce the risk of sales concentration, so as to obtain stable profits through continuous and stable sales orders, coupled with process improvement and cost reduction. There is no capital increase plan in the coming year. The Company will carefully assess whether to invest more capital in the business depending on the operating situation.

### **7.5.2 Hard disk repair and data erasure services**

Considering the continuous loss of the business and the poor performance over the years, the business closed at the end of 2019. The Company is currently clearing accounts of the investee companies.

## **7.6 Analysis of Risk Management**

### **7.6.1 Impact of interest, foreign exchange rate and inflation fluctuations, and future countermeasures**

When borrowing from banks, the Company and the bank negotiate reasonable interest rates, prices and conditions. In terms of exchange rate, the Company adopts a natural hedge to reduce exchange rate risk. In addition, as the Company adopts build-to-order production mode, inflation has little impact on the Company.

### **7.6.2 Investment policy and reasons for gains & losses for high-risk/high-leverage financial products, derivatives, loans to others and guarantees of debts, and future countermeasures**

In order to manage financial risks, the Company has formulated, in accordance with the relevant provisions of the FSC, “Procedures for Acquisition or Disposal of Assets” (covers the engagement in derivatives trading), “Procedures for Loaning Funds to Others” and “Procedures for Endorsements/Guarantees for Others”, as the compliance basis for the relevant activities.

Up to the latest year and the date of the annual report published, the Company has not engaged in any high-risk and high-leverage investment and derivatives trading, and loaning



funds to others or providing endorsements/guarantees for others is handled according to the prescribed procedures.

### 7.6.3 Future research and development plans and the expenses anticipated to be invested into R&D

As of April 30, 2021 Unit: NT\$ thousand

Item	Research Projects	Completion (%)	R&D expenses to be reinvested	Estimated completion date of mass production
Stainless steel kitchen cutlery	Development of cutlery set molds	70%	6,000	Q3 21
	Design of new forged cutlery set (per market trend)	50%	19,600	Q1 22
Touch Panel	Development of full-lamination process and equipment for 43" products	40%	1,000	Q3 22
	2.5D/3D full-lamination for 12" to 21" products	0%	2,500	Q2 22

### 7.6.4 Impacts generated by changes in important policies and laws at home and abroad upon the Company's finance and business, and the Company's countermeasures

The daily operations of the Company are handled in accordance with relevant domestic and foreign laws and regulations. External legal advisors are engaged to provide consultation or assistance on relevant legal issues. Therefore, the impacts of the change of important domestic and foreign policies and laws are limited.

### 7.6.5 Impacts generated by changes in technology and industries upon the Company's finance and business, and the Company's countermeasures: No significant impact.

### 7.6.6 Impacts created by changes in corporate image upon the management over crisis, and the Company's countermeasures: Such fact is nonexistent in the Company.

### 7.6.7 Expected benefits and risks from merger & acquisition, and the Company's countermeasures: None.

### 7.6.8 Expected benefits and risks related to plant facility expansions, and the Company's countermeasures: Not applicable.

### 7.6.9 Risks from supplier and buyer concentration, and the Company's countermeasures

#### A. Risk assessment of sales concentration and response measures

The ratio of sales to customer A to total net sales is 85.48% in 2019. In the future, the Company will actively develop new customers to reduce the risk of sales concentration.

#### B. Risk assessment of purchase concentration and response measures

The main raw materials of the Company are stainless steel bars and stainless steel plates, which are standard products in the market. Sources of raw materials supply are secure, without the risk of procurement concentration.

7.6.10 Impacts and risks from significant changes in shareholdings of directors and major shareholders, and the Company's countermeasures: Such fact is nonexistent in the Company.

7.6.11 Impacts and risks from changes in management controls, and the Company's countermeasures:

At the end of 2020, the cumulative change in the number of directors reached four-sevenths. After the reelection of directors on February 5, 2021, the Company has made a "significant change in management controls" as defined by the competent authority.

Since the reelection of the Board, the Company has continuously expanded the business of stainless steel kitchen cutlery. There should be no significant impact or risk of small changes in the Company's business strategy and vision.

The Company will continue to provide investors relevant business information in accordance with applicable laws and regulations and the requirements of competent authorities.

7.6.12 Significant lawsuits and non-litigious matters: Such fact is nonexistent in the Company.

7.6.13 Other major risks and countermeasures

A. Assessment and analysis of information security risk

In response to the increasingly powerful network functions, the gradual replacement of local servers by cloud hosts, the sharp increase in network security threats and the infestation of worm virus, the Company has established an advanced information security system to ensure the protection of ERP systems and electronic signature systems. In addition, to prevent the system collapse caused by the attack of the information security system, a complete backup and preservation process have been established. Also, make information security assessments on the relevant maintenance vendors and signed an information security agreement with them.

The Company schedules the following preventive measures regularly:

- (1) Firewall control: Use intrusion detection and protection and Fortinet's FortiGate, FortiSwitch, and FortiAP to resist external intrusion and prevent network continuity attacks through blocking protection.
- (2) Implement daily tripartite backup procedures for major systems such as ERP, including backup to local disk, backup to NAS disk array system, and backup to remote disk array system through remote encryption backup program.
- (3) Implement weekly tripartite backup procedures for major systems such as ERP, including backup to local disk, backup to external hard drive and NAS disk array system, and backup to remote disk array system through remote encryption backup program.

- (4) The Company's Microsoft operating system has all upgraded to Windows 10, and the anti-virus software is Microsoft Windows 10 integrated anti-virus software, which is automatically updated to the latest revision files and virus codes regularly.
- (5) The Company has introduced CrowdStrike, a state-of-the-art cloud-based endpoint protection technology offering advanced threat protection (ATP) and endpoint detection and response (EDR, including threat hunting and anti-hacking), to effectively protect the network, users, and data from malicious attacks and threats.
- (6) Publish information security warning reports to employees from time to time.
- (7) In response to the outbreak of the COVID-19 and related major infectious diseases, the Company has set up the VPN remote connection through a strict encryption firewall, so that employees can work at home under the information security control, and get the connection information through firewall records.

In 2020 and up to the published date of the annual report, the Company did not find any major network security threats or incidents, which have a significant adverse impact on the Company's business or operations.

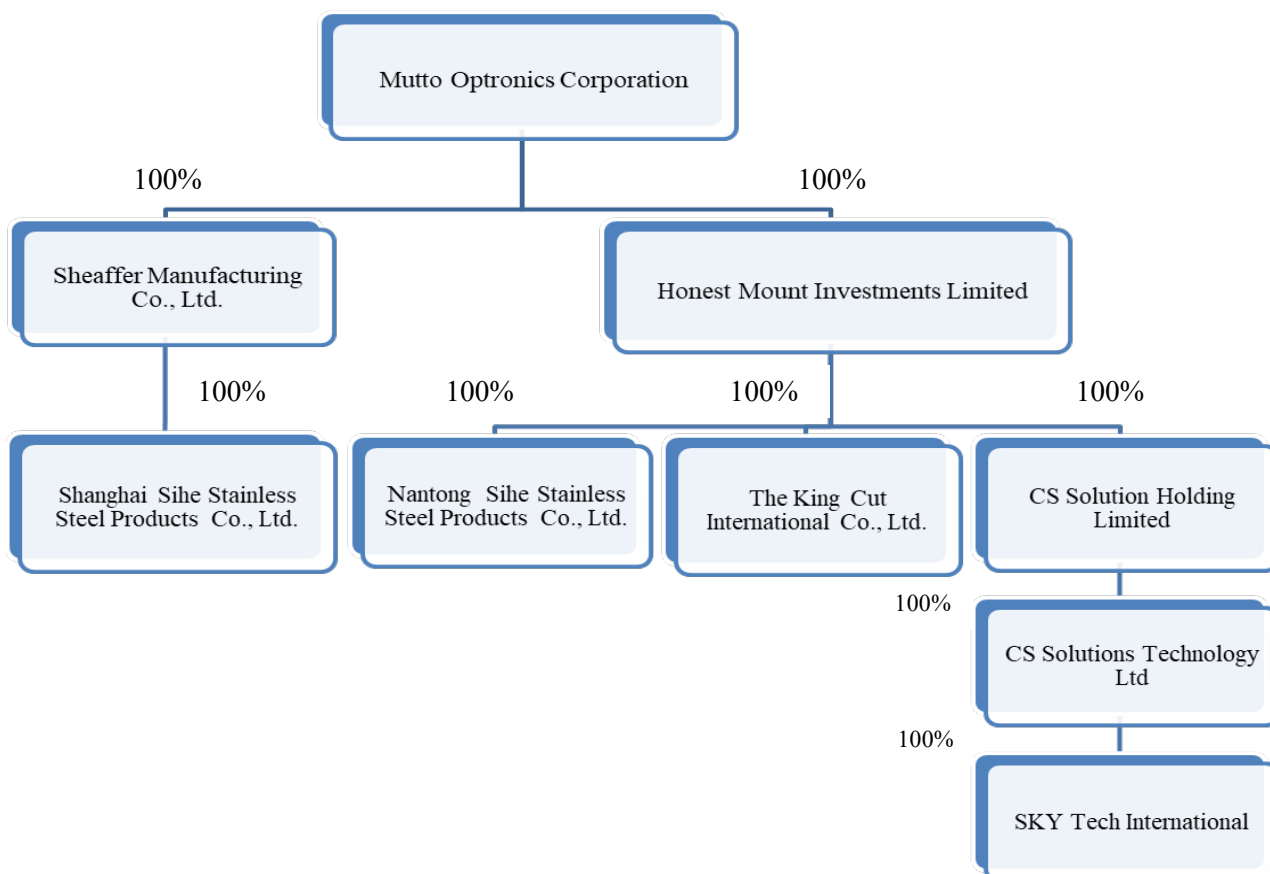
**7.7 Other Significant Items: None.**

## VIII. Special Disclosure

### 8.1 Affiliates

#### 8.1.1 Consolidated business report of the affiliates

##### A. Organizational chart of the affiliates



##### B. Affiliates' profile

As of December 31, 2020

Name	Date of incorporation	Location	Paid-in capital (in thousands)	Main business
Sheaffer Manufacturing Co., Ltd.	1979/1/15	Taipei City, Taiwan	NT\$ 100,000	Sales of stainless steel products
Shanghai Sihe Stainless Steel Products Co., Ltd.	1996/12/25	Shanghai, China	US\$ 2,610	Manufacture and sales of stainless steel products
Honest Mount Investments Limited	2014/2/5	British Virgin Islands	US\$ 20,000	Investment
The King Cut International Co., Ltd.	1997/8/26	British Virgin Islands	US\$ 50	Sales of stainless steel products
Nantong Sihe Stainless Steel Products Co., Ltd.	2017/6/30	Nantong City, China	US\$ 7,500	Manufacture of stainless steel products
CS Solution Holding Limited	2016/4/22	British Virgin Islands	US\$ 9,090	Hard disk repair services

Name	Date of incorporation	Location	Paid-in capital (in thousands)	Main business
CS Solutions Technology Ltd	2016/5/24	U.S.A.	US\$ 4,316	Hard disk repair services (In the liquidation process)
Sky Tech International	2014/9/8	U.S.A.	US\$ 0	Hard disk repair services (In the liquidation process)

C. For companies presumed to have a relationship of control and subordination under Article 369-3 of the Company Act: None.

D. The industries covered by the business operated by the affiliates overall, and a description of the mutual dealings and division of work

- (1) Production and sales of stainless steel kitchen cutlery: Sheaffer Manufacturing Co., Ltd. ∙ Nantong Sihe Stainless Steel Products Co., Ltd. ∙ Shanghai Sihe Stainless Steel Products Co., Ltd. ∙ The King Cut International Co., Ltd. ∙
- (2) Service of hard disk repair (In the liquidation process) : CS Solution Holding Limited ∙ CS Solutions Technology Ltd ∙ Sky Tech International
- (3) Investment company established in a third region: Honest Mount Investments Limited

E. Directors, supervisors, and general manager of each affiliate

As of December 31, 2020 Unit: NT\$ thousand

Company name	Title	Name or the representative person	Shareholding	
			Shares	%
Sheaffer Manufacturing Co., Ltd.	Chairman	Mutto Optronics Corporation Representative: Shiou-Yuh Liaw	100,000 -	100% -
Shanghai Sihe Stainless Steel Products Co., Ltd.	Chairman and General Manager Director Director Supervisor	Sheaffer Manufacturing Co., Ltd. Representative: Meng-Chang Wang Representative: Jen-Yeong Yu Representative: Herbert Chang Representative: Fang-Bin Li	74,333 - - - -	100% - - - -
Honest Mount Investments Limited	Director	Mutto Optronics Corporation Representative: Shiou-Yuh Liaw	20,000,000 -	100% -
The King Cut International Co., Ltd.	Director	Honest Mount Investments Limited Representative: Shiou-Yuh Liaw	5,000 -	100% -
Nantong Sihe Stainless Steel Products Co., Ltd.	Executive Director Supervisor General Manager	Honest Mount Investments Limited Representative: Shiou-Yuh Liaw Representative: Chun-I Chang Shih-Hsien Tang	213,600 - - -	100% - - -
CS Solution Holding Limited	Director	Honest Mount Investments Limited Representative: Chi-Yeh Hsu	9,090,000 -	100% -
CS Solutions Technology Ltd	Director Director	CS Solution Holding Limited Representative: Herbert Chang Representative: David Wu	215,800 - -	100% - -

	Director & General Manager	Representative: Kenneth D. Wing	-	-
Sky Tech International	Director	CS Solutions Technology Ltd	100	100%
	Director	Representative: Herbert Chang	-	-
	Director	Representative: David Wu	-	-
		Representative: Kenneth D. Wing	-	-

F. Overview of the operations of the affiliates

As of December 31, 2020 Unit: NT\$ thousand

Company name	Paid-up Capital (US\$ in Thousands)	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Sheaffer Manufacturing Co., Ltd.	100,000	95,823	151	95,672	-	(187)	(7,490)	(74.90) (Note 1)
Shanghai Sihe Stainless Steel Products Co., Ltd.	74,333 (USD2,610)	155,119	134,431	20,688	403	(947)	(2,276)	-
Nantong Sihe Stainless Steel Products Co., Ltd.	213,600 (USD7,500)	116,406	32,871	58,400	94,943	(25,534)	(36,738)	-
Honest Mount Investments Limited	602,678	391,873	130,019	261,854	-	(401)	(158,880)	(7.94) (Note 2)
The King Cut International Co., Ltd.	1,495 (USD50)	213,195	161,278	51,917	49,103	(253)	12,459	2,492 (Note 3)
CS Solution Holding Limited	275,837	23,971	12,458	11,514	-	(411)	1,002	0.11 (Note 4)
CS Solutions Technology Ltd	131,801 (USD4,316)	12,596	-	12,596	-	(598)	(616)	(2.85) (Note 5)
Sky Tech International	3 (USD0.1)	-	-	-	-	-	-	-

Note 1: The value of each share of Sheaffer Manufacturing Co., Ltd. is NT\$1,000, with 100,000 shares in total.

Note 2: The value of each share of Honest Mount Investments Limited and CS Solution Holding Limited is US\$1, with 20,000,000 shares in total. .

Note 3: The value of each share of The King Cut International Co., Ltd. is US\$10, with 5,000 shares in total.

Note 4: The value of each share of CS Solutions Technology Ltd is US\$1, with 9,090,000 shares in total.

Note 5: The value of each share of CS Solutions Technology Ltd is US\$20, with 215,800 shares in total.

## 8.1.2 Consolidated financial statements of the affiliates

### **REPRESENTATION LETTER**

The entities that are required to be included in the consolidated financial statements of Mutto Optronics Corporation as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, “Consolidated Financial Statements”. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Mutto Optronics Corporation and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

MUTTO OPTRONICS CORPORATION

By

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Shiou-Yuh Liaw  
Chairman

March 29, 2021

8.1.3 Affiliation report: Not applicable.

**8.2 Private Placement of Securities in 2020 up to Publication Date of this Annual Report in 2021: None.**

**8.3 Holding or Disposal of the Company’s Shares by its Subsidiaries in 2020 up to Publication Date of this Annual Report in 2021: None.**

**8.4 Other Supplementary Information: None.**

## **IX. Events Defined under Article 36, Paragraph 3, Subparagraph 2 of the Securities and Exchange Act, which Significantly Impacted Shareholders' Equity or Security Prices, have Occurred in 2020 up to Publication Date of this Annual Report in 2021**

### **A. Change of the Company's Chairman and General Manager**

The former Chairman and General Manager of the Company, Ming-Tsung Lee, resigned for personal reasons. The Board elected Shiou-Yuh Liaw as the Chairman and appointed him Acting General Manager, effective on Dec. 11, 2020.

### **B. The Board's approval of the recognition of expected credit risk losses in accordance with the International Accounting Standards**

- (1) Since Virgin Australia entered voluntary administration on April 21, 2020, the Company recognized in the 1Q20 financial statements an expected credit risk loss of NT\$34,073 thousand for the bonds issued by Virgin Australia in accordance with the requirements of International Accounting Standards No. 9. The loss would reduce the net value per share and the earnings per share by approximately NT\$0.74. There was no cash flow used in the provision of expected credit risk losses.
- (2) Since Founder Group was approved for reorganization on February 19, 2020, the Company recognized in the 2019 financial statements an expected credit risk loss of NT\$67,420 thousand for the bonds, including the principal and interest, issued by Founder Group in accordance with the requirements of International Accounting Standards No. 9. However, the Company further recognized in the 3Q20 financial statements an expected credit risk loss of NT\$37,071 thousand upon the issue of a confirmation by the management of Founder Group on August 19, 2020, refusing to confirm the full amount of the creditor's right.
- (3) Virgin Australia entered voluntary administration on April 21, 2020. The Company recognized in the 1Q20 financial statements an expected credit risk loss of NT\$34,073 thousand for the bonds issued by Virgin Australia. At the meeting of creditors held on Sep. 4, 2020, the creditors agreed to sell Virgin Australia to Bain Capital. Based on the meeting material, the Company further recognized an expected credit risk loss of NT\$14,701 thousand in the 3Q20 financial statements.
- (4) As described in (2) and (3) above, the Company recognized a total expected credit risk loss of NT\$51,772 thousand in the third quarter of 2020, which would reduce earnings per share by approximately NT\$1.13. There was no cash flow used in the provision of expected credit risk losses.



## **Mutto Optronics Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2020 and 2019 and  
Independent Auditors' Report**

### *Notice to Readers*

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

## REPRESENTATION LETTER

The entities that are required to be included in the consolidated financial statements of Mutto Optronics Corporation as of and for the year ended December 31, 2020, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No. 10, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Mutto Optronics Corporation and subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

MUTTO OPTRONICS CORPORATION

By

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MING-TSUNG LEE  
Chairman

March 29, 2021

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Mutto Optronics Corporation

### Opinion

We have audited the accompanying consolidated financial statements of Mutto Optronics Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits of the financial statements for the year ended December 31, 2020 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Jin-Guan-Zheng-Shen-Zi Order No. 1090360805 as approved by the Financial Supervisory Commission on February 25, 2020 and generally accepted auditing standards in the Republic of China, and our audits of the financial statements for the year ended December 31, 2019 in accordance with Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards 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 Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2020 are stated as follows:

## The Impairment Loss for Financial Assets at Fair Value Through Other Comprehensive Income

The consolidated balances of financial assets at fair value through other comprehensive income amounted to \$65,792 thousand, and 17% of total consolidated assets, as of December 31, 2020. For a summary of the significant accounting policies on financial assets at fair value through other comprehensive income impairment, refer to Notes 4, 5, 7 and 9 to the consolidated financial statements. The management considers the historical default loss rate provided by the external rating agencies, the current financial position of the debtor and the forecast of the industry to measure the expected credit loss of debt instruments for a 12-month period or the duration. As it is significant that the impairment loss involve subjective judgment and assessment of the management, we determine that the impairment loss for financial assets at fair value through other comprehensive income financial assets as the key audit matters.

Our main audit procedures performed in respect of the Company's assessment of financial assets at fair value through other comprehensive income financial assets for impairment included the following:

1. Obtain the ending evaluation details of the fair value provided by the intermediary financial institution, re-calculate its correctness and analyze whether the abnormal fluctuations at the fair value caused by change in the credit risk.
2. Understand whether the management regularly evaluates the performance, operation profile, financial structure and future trends of the relevant investment targets in accordance with the provisions of the internal control system in order to understand whether the investment targets may cause defaults resulting in expected credit losses.
3. Examine whether the management assesses the impairment of the investment target in accordance with the expected credit losses.

### **Other Matter**

We have also audited the parent company only financial statements of Mutto Optronics Corporation as of and for the years ended December 31, 2020 and 2019 on which we have issued an unmodified opinion.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Pei-De Chen and Wen-Chin Lin.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 29, 2021

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

# MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 162,502	42	\$ 29,150	3
Financial assets at fair value through profit and loss (Note 4 and 28)	29,599	8	18,169	2
Financial assets at fair value through other comprehensive income (Notes 4, 5, 7 and 28)	65,792	17	708,269	70
Financial assets at amortized cost (Notes 4, 8 and 28)	1	-	54,075	5
Accounts receivable (Notes 4, 5 and 10)	37,457	10	43,798	4
Other receivables (Note 4)	1,832	-	15,686	2
Inventories (Notes 4 and 11)	26,447	7	49,127	5
Prepayments	13,269	3	24,017	2
Other current assets	<u>9,121</u>	<u>2</u>	<u>18,290</u>	<u>2</u>
Total current assets	<u>346,020</u>	<u>89</u>	<u>960,581</u>	<u>95</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Notes 4, 5 and 13)	14,047	4	23,152	2
Right-of-use assets (Notes 4 and 14)	18,649	5	12,006	1
Intangible assets (Notes 4, 5, 15 and 16)	292	-	5,014	1
Deferred income tax assets (Note 4)	3,538	1	2,611	-
Refundable deposits (Note 4)	<u>4,330</u>	<u>1</u>	<u>5,662</u>	<u>1</u>
Total non-current assets	<u>40,856</u>	<u>11</u>	<u>48,445</u>	<u>5</u>
<b>TOTAL ASSETS</b>	<u>\$ 386,876</u>	<u>100</u>	<u>\$ 1,009,026</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loan (Notes 17 and 28)	\$ -	-	\$ 421,900	42
Accounts payable	13,827	4	20,270	2
Other payables	23,418	6	28,728	3
Lease liabilities (Notes 4 and 14)	8,110	2	9,588	1
Other current liabilities	<u>152</u>	<u>-</u>	<u>1,465</u>	<u>-</u>
Total current liabilities	<u>45,507</u>	<u>12</u>	<u>482,041</u>	<u>48</u>
<b>NON-CURRENT LIABILITIES</b>				
Provisions (Note 18)	18,187	4	11,938	1
Deferred income tax liabilities (Note 4)	427	-	105	-
Lease liabilities (Notes 4 and 14)	6,947	2	2,415	-
Other non-current liabilities	<u>-</u>	<u>-</u>	<u>1,608</u>	<u>-</u>
Total non-current liabilities	<u>25,561</u>	<u>6</u>	<u>16,066</u>	<u>1</u>
Total liabilities	<u>71,068</u>	<u>18</u>	<u>498,107</u>	<u>49</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 20 and 24)</b>				
Common stock	457,790	118	457,790	46
Capital surplus	55,178	14	452,600	45
Accumulated deficit	-	-	-	-
Legal reserve	-	-	-	-
Accumulated deficit	(191,419)	(49)	(391,222)	(39)
Other equity	<u>(5,741)</u>	<u>(1)</u>	<u>(8,249)</u>	<u>(1)</u>
Total equity	<u>315,808</u>	<u>82</u>	<u>510,919</u>	<u>51</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 386,876</u>	<u>100</u>	<u>\$ 1,009,026</u>	<u>100</u>

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

# MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 4)	\$ 101,541	100	\$ 178,400	100
OPERATING COSTS (Notes 11 and 21)	<u>108,660</u>	<u>107</u>	<u>195,370</u>	<u>109</u>
GROSS LOSS	<u>(7,119)</u>	<u>(7)</u>	<u>(16,970)</u>	<u>(9)</u>
OPERATING EXPENSES (Notes 4 and 21)				
Selling expenses	4,258	4	17,709	10
General and administrative expenses	39,192	39	99,831	56
Research and development expenses	<u>6,034</u>	<u>6</u>	<u>27,831</u>	<u>16</u>
Total operating expenses	<u>49,484</u>	<u>49</u>	<u>145,571</u>	<u>82</u>
LOSS FROM OPERATIONS	<u>(56,603)</u>	<u>(56)</u>	<u>(162,541)</u>	<u>(91)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 21)				
Interest income (Note 9)	19,373	19	51,370	29
Other income	10,307	10	6,394	3
Other gains and losses (Note 9)	(75,411)	(74)	(188,770)	(106)
Finance costs	(2,997)	(3)	(16,188)	(9)
Expected credit loss (Notes 4 and 9)	<u>(86,693)</u>	<u>(85)</u>	<u>(69,438)</u>	<u>(39)</u>
Total non-operating income and expenses	<u>(135,421)</u>	<u>(133)</u>	<u>(216,632)</u>	<u>(122)</u>
LOSS BEFORE INCOME TAX	(192,024)	(189)	(379,173)	(213)
INCOME TAX BENEFIT (Notes 4 and 22)	<u>605</u>	<u>1</u>	<u>4,612</u>	<u>3</u>
NET LOSS FOR THE YEAR	<u>(191,419)</u>	<u>(188)</u>	<u>(374,561)</u>	<u>(210)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	<u>-</u>	<u>-</u>	<u>(10,741)</u>	<u>(6)</u>

(Continued)



# MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising from the translation of the foreign operations	\$ 3,091	3	\$ (9,794)	(6)
Unrealized gain(loss) on investments in debt instruments at fair value through other comprehensive income (Note 9)	<u>(583)</u>	<u>(1)</u>	<u>58,288</u>	<u>33</u>
Other comprehensive income (loss) for the year, net of income tax	<u>2,508</u>	<u>2</u>	<u>37,753</u>	<u>21</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (188,911)</u>	<u>(186)</u>	<u>\$ (336,808)</u>	<u>(189)</u>
LOSS PER SHARE (Note 23)				
Basic	<u>(\$ 4.18)</u>		<u>(\$ 8.18)</u>	
Diluted	<u>(\$ 4.18)</u>		<u>(\$ 8.18)</u>	

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

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019  
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company					Exchange Differences on Translating Foreign Operations	Other Equity		Total Equity
	Common Stock	Capital Surplus	Legal Reserve	Retained Reserve			Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	
				Accumulated Deficit	Total				
BALANCE AT JANUARY 1, 2019	\$ 457,790	\$ 628,079	\$ 28,589	\$ (205,910)	\$ (177,321)	\$ 3,379	\$ (65,941)	\$ (62,562)	\$ 845,986
Effect of retrospective application	-	-	-	(101)	(101)	-	-	-	(101)
ADJUSTED BALANCE AT JANUARY 1, 2019	457,790	628,079	28,589	(206,011)	(177,422)	3,379	(65,941)	(62,562)	845,885
Appropriation of 2018 earnings									
Legal reserve	-	-	(28,589)	28,589	-	-	-	-	-
Capital surplus reduction to make up for deficit	-	(177,321)	-	177,321	177,321	-	-	-	-
Net loss for the year ended December 31, 2019	-	-	-	(374,561)	(374,561)	-	-	-	(374,561)
Other comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	(9,794)	47,547	37,753	37,753
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	(374,561)	(374,561)	(9,794)	47,547	37,753	(336,808)
Share-based payment	-	1,842	-	-	-	-	-	-	1,842
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	(16,560)	(16,560)	-	16,560	16,560	-
BALANCE AT DECEMBER 31, 2019	457,790	452,600	-	(391,222)	(391,222)	(6,415)	(1,834)	(8,249)	510,919
Capital surplus reduction to make up for deficit	-	(391,222)	-	391,222	391,222	-	-	-	-
Net loss for the year ended December 31, 2020	-	-	-	(191,419)	(191,419)	-	-	-	(191,419)
Other comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	3,091	(583)	2,508	2,508
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	(191,419)	(191,419)	3,091	(583)	2,508	(188,911)
Share-based payment	-	(6,200)	-	-	-	-	-	-	(6,200)
BALANCE AT DECEMBER 31, 2020	\$ 457,790	\$ 55,178	\$ -	\$ (191,419)	\$ (191,419)	\$ (3,324)	\$ (2,417)	\$ (5,741)	\$ 315,808

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

# MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

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

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ (192,024)	\$ (379,173)
Adjustments for:		
Depreciation expenses	20,347	36,193
Amortization expenses	427	10,686
Expected credit loss	86,693	69,438
Net profit on financial assets at fair value through profit or loss	(13,707)	(1,507)
Finance costs	2,997	16,188
Interest income	(19,373)	(51,370)
(Reversal of) compensation costs of share-based payments	(6,200)	1,842
(Gain) loss on disposal of property, plant and equipment	(1,314)	2,291
Loss (gain) on disposal of financial assets, net	67,231	(13,777)
Impairment loss recognized on non-financial assets	-	196,519
Provision for decline in value of inventories	19,711	32,870
Net loss (gain) on foreign currency exchange	20,652	16,123
Gain on lease modification	(57)	(7)
Changes in operating assets and liabilities		
Accounts receivable	(2,694)	9,329
Other receivables	498	(16,634)
Inventories	3,338	(3,349)
Prepayments and other current assets	19,924	10,892
Accounts payable	(4,222)	(1,071)
Other payables	355	(722)
Other current liabilities	(1,394)	(147)
Cash inflow generated from (used in) operations	1,188	(65,386)
Interest received	738	1,421
Interest paid	(348)	(3,688)
Income tax paid	(17)	(108)
Net cash inflow from (used in) operating activities	<u>1,561</u>	<u>(67,761)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through other comprehensive income	-	(249,390)
Proceeds from disposal of financial assets at fair value through other comprehensive income	477,291	493,126
Acquisition of financial assets at amortized cost	-	(9,274)
Proceeds from disposal of financial assets at amortized cost	53,299	-
Acquisition of financial assets at fair value through profit or loss	(41,983)	-
Proceeds from disposal of financial assets at fair value through profit or loss	41,949	-
Acquisition of property, plant and equipment	(3,408)	(5,560)
Proceeds from disposal of property, plant and equipment	6,783	508

(Continued)

# MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

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

	<u>2020</u>	<u>2019</u>
Decrease in refundable deposits	775	1,597
Acquisition of intangible assets	(49)	(978)
Proceeds from disposal of intangible assets	4,347	-
Acquisition of right-of-use assets	(4,277)	-
Interest received	25,446	58,030
Interest paid	<u>(2,804)</u>	<u>(13,204)</u>
Net cash generated from investing activities	<u>557,369</u>	<u>274,855</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term loan	(416,628)	(199,385)
Guarantee deposits refunded	-	(2,707)
Payment of the principal portion of lease liabilities	<u>(3,450)</u>	<u>(5,152)</u>
Net cash used in financing activities	<u>(420,078)</u>	<u>(207,244)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(5,500)</u>	<u>7</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	133,352	(143)
<b>CASH AT THE BEGINNING OF THE YEAR</b>	<u>29,150</u>	<u>29,293</u>
<b>CASH AT THE END OF THE YEAR</b>	<u>\$ 162,502</u>	<u>\$ 29,150</u>

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

# MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Mutto Optronics Corporation (the “Company”) was incorporated in the Republic of China (ROC) in October 2008 which originally engaged in the research and development, production and sales of touch display panels. In March 2014, the Company disposed of the full equity of Mutto Optronics Group Limited (MOGL, main business of production and sales of touch panels) and obtained 100% equity of The King Cut International Co., Ltd (King Cut), Sheaffer Manufacturing Co., Ltd. (Taiwan Sihe) and its subsidiary of Shanghai Sihe Stainless Steel Products Co., Ltd. (Shanghai Sihe) in August 2014.

In order to cooperate with the environmental comprehensive rectification plan required by the local government, Shanghai Sihe moved to Nantong Sihe Stainless Steel Products Co., Ltd. (Nantong Sihe) to continue production and operation in October 2017. It has no significant impact on the continuous operation of the Group.

The Company’s shares were listed on the Taipei Exchange (TPEX) in April 2012.

The consolidated financial statements are expressed in the Company’s functional currency, the New Taiwan Dollars.

### 2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 29, 2021.

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on Mutto Optronics Corporation and its subsidiaries’ (collectively as the “Company”) accounting policies.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers for application starting from 2021 and the IFRSs issued by International Accounting Standards Board (IASB) and endorsed by the FSC with effective date starting 2021 :

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective Date Issued by IASB</b>
Amendments to IFRS 4 – Extension of the Temporary Exemption from Applying IFRS 9 Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark reform	Effective immediately upon promulgation by the IASB January 1, 2021
Amendments to IFRS 16, “Covid-19-related rent concessions”	June 1, 2020

As of the date the accompanying consolidated financial statements were authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

- c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC :

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective Date Issued by IASB(Note 1)</b>
Annual improvements to IFRS Standards 2018-2020	January 1, 2022 (Note 2)
Amendments to IFRS 3, “Reference to the conceptual framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28, “Sale or contribution of assets between an investor and its associate or joint venture”	To be determined by IASB
IFRS 17, “Insurance contracts”	January 1, 2023
Amendments to IFRS 17, “Insurance contracts”	January 1, 2023
Amendments to IAS 1, “Classification of liabilities as current or non-current”	January 1, 2023
Amendments to IAS 16, “Property, plant and equipment: proceeds before intended use”	January 1, 2022 (Note 4)
Amendments to IAS 37, “Onerous contracts-cost of fulfilling a contract”	January 1, 2022 (Note 5)
Amendments to IAS 1, “Disclosure of accounting policies”	January 1, 2023 (Note 6)
Amendments to IAS 8, “Definition of Accounting Estimates”	January 1, 2023 (Note 7)

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

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

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

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

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

Note 6 : The amendment applies prospectively for the annual reporting period beginning on or after January 1, 2023.

Note 7 : The amendment applies to changes in accounting estimates and changes in accounting policies that occur during the annual reporting period beginning on or after January 1, 2023.

As of the date the accompanying consolidated financial statements were authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

##### **Statement of Compliance**

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC with the effective dates (collectively, "Taiwan-IFRSs").

##### **Basis of Preparation**

The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below.

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

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

## **Classification of Current and Noncurrent Assets and Liabilities**

Current assets include:

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

Current liabilities include:

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

Assets and liabilities that are not classified as current are classified as noncurrent.

## **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 12, Table 5 and Table 6 for the detailed information of subsidiaries, including the percentage of ownership and main business.

## **Foreign Currencies**

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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



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

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

Goodwill and fair value adjustments on identifiable assets and liabilities acquired in the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

### **Inventories**

Inventories, which comprise raw materials, supplies, finished goods and work-in-process, are stated at the lower of cost or net realizable value. When evaluating the lower of cost or net realizable value, they are made by each item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories minus all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

### **Property, Plant and Equipment**

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

Depreciation on property, plant and equipment is computed using the straight-line method mainly over the following estimated useful lives. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

### **Intangible Assets**

#### **a. Intangible assets acquired separately**

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

b. Derecognition of intangible assets

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

**Impairment of Property, Plant and Equipment, Right-of-use Assets, and Intangible Assets (Other Than Goodwill)**

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

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

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

**Financial Instruments**

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

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

a. Financial assets

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

1) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in debt instruments at FVTOCI.

a) Financial assets at FVTPL

A financial asset is classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI.

Any interest earned on the FVTPL is recognized in interest income. Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b) Financial assets at amortized cost

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

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

Subsequent to initial recognition, financial assets at amortized cost, including cash, accounts receivable, other receivables, restricted assets and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income calculates by effective interest multiplying the book value of financial assets.

c) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- i. The financial asset is held within certain business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

## 2) Impairment of financial assets

At each balance sheet date, the Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including account receivables and other receivables) and investments in debt instruments that are measured at FVTOCI.

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

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

For the purpose of internal credit risk management, the Company determines that the following conditions represent a default in financial assets without considering the collateral held :

- a) Internal or external information indicates that the debtor is unable to pay off the debt.
- b) If there is an overdue case, unless there is reasonable and corroborable information which shows that the delayed default basis is more appropriate.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

## 3) Derecognition of financial assets

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

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

b. Financial liabilities

1) Subsequent measurement

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

2) Derecognition of financial liabilities

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

### **Revenue Recognition**

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

#### Revenue from the sale of goods

Revenue from the sale of goods comes from sales of stainless steel kitchen cutlery and touch panel. Sales of stainless steel kitchen cutlery and touch panel are recognized as revenue when the goods are delivered to the customer because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has primary responsibility for sales to future customers, and bears the risks of obsolescence. Accounts receivable is recognized concurrently.

### **Leasing**

For a contract that contains a lease component and non-lease component, the Company may elect to account for the lease and non-lease components as a single lease component.

a. The Company as lessor

Under operating leases, Rental payment (net of any rental incentive) is recognized in profit on a straight-line basis over the term of the lease.

b. The Company as lessee

Except for payments for low-value asset leases and short-term leases which are recognized as expenses on a straight-line basis, the Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of the lease.

Right-of-use assets are measured at cost. The cost of right-of-use assets comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus an estimate of costs needed to restore the underlying assets. Subsequent measurement is calculated as cost less accumulated depreciation and accumulated impairment loss and adjusted for changes in lease liabilities as a result of lease term modifications or other related factors. Right-of-use assets are presented separately in the consolidated balance sheets.

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

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

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

### **Borrowing Costs**

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### **Government grants**

Government grants are recognized at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses for the related costs for which the grants are intended to compensate.

If the government subsidy is used to compensate for expenses or losses that have occurred, or for the purpose of providing the company as immediate financial support, and there is no future related cost, it is recognized in the profit and loss during the period that it can be received.

### **Employee Benefits**

#### **a. Short-term employee benefits**

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

#### **b. Retirement benefits**

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

### **Share-based Payment Arrangements**

#### Employee share options granted to employees

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a

corresponding adjustment to capital surplus - employee share options.

## **Taxation**

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

### a. Current tax

The current income tax expense is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Company operate and generate taxable income.

According to the Income Tax Law of R.O.C., an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

### b. Deferred tax

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

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

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

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

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

### c. Current tax and deferred tax for the year

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

current tax and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The Company has considered the economic implications of COVID-19 on critical accounting estimates and will continue evaluating the impact on its financial position and financial performance as a result of the pandemic. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation and uncertainty

#### a. Impairment of tangible and intangible assets (other than goodwill)

For impairment test of assets, the Company evaluates and decides on certain assets' independent cash flows, and the probable future profit or loss which is based on subjective judgment, utilized asset mode, and industry characteristics. Any changes in national and local economic conditions or the Company's strategy may cause significant impairment loss.

#### b. Estimated impairment of financial assets

The provision for impairment of accounts receivable and investments in debt instruments is based on assumptions about the risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs for the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. Where the actual future cash inflows are less than expected, a material impairment loss may arise.



6. CASH

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 364	\$ 394
Checking accounts and demand deposits	<u>162,138</u>	<u>28,756</u>
	<u>\$162,502</u>	<u>\$ 29,150</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Deposits in bank	0%-0.3%	0%-0.22%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a. Investments in debt instruments at FVTOCI

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Current</u>		
Foreign investments		
Corporate Bonds	<u>\$ 65,792</u>	<u>\$ 708,269</u>

1) Refer to Note 9 for information relating to their credit risk management and impairment assessment.

2) Refer to Note 28 for information relating to investments in debt instruments at FVTOCI pledged as security.

8. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Current</u>		
Restricted assets	<u>\$ 1</u>	<u>\$ 54,075</u>

1) As of December 31, 2020 and 2019, annual interest rates of the restricted assets were 0.05% and 1.90% to 2.15% respectively.

2) Refer to Note 28 for information relating to financial assets at amortized cost pledged as security.

## 9. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI.

	December 31	
	2020	2019
Gross carrying amount	\$ 121,225	\$ 783,688
Less: Allowance for impairment loss	(53,016)	(73,585)
Amortized cost	68,209	710,103
Adjustment to fair value	(1,834)	(1,834)
	<u>\$ 65,792</u>	<u>\$ 708,269</u>

The Company only invests in debt instruments that have low credit risk for the purpose of impairment assessment. The Company continues to monitor credit risk exposures by closely tracking relevant information. The Company also reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the original recognition to the reporting date.

The Company considers the historical default loss rate provided by the external rating agencies, the current financial position of the debtor and the forecast of the industry to measure the expected credit loss of debt instruments for a 12-month period or the duration.

The Company's current credit risk grading mechanism was as follows:

Category	Description	Basis for Recognizing Expected Credit Losses (ECLs)
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECLs
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECLs- not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECLs-credit impaired

The gross carrying amounts of debt instrument investments by credit category and the corresponding expected loss rates were as follows:

December 31, 2020

Category	Expected Loss Rate	Gross Carrying Amount At FVTOCI
Performing	0.74%	\$ 8,772
Doubtful	4.73%	56,625
In default	89.40%	55,828

December 31, 2019

Category	Expected Loss Rate	Gross Carrying Amount	
		At FVTOCI	
Performing	0.10%-2.25%	\$	677,417
In default	61.34%-61.64%		106,271

The movements of the allowance for impairment loss of investments in debt instruments at FVTOCI were as follows:

	Credit Rating		
	Performing (12-month ECLs)	In default (Lifetime ECLs - not Credit-impaired)	In default (Lifetime ECLs - Credit-impaired)
Balance at January 1, 2019	\$ 5,787	\$ -	\$ 67,798
Transfers			
From performing to doubtful(a)	(1,274)	2,852	-
From performing to default(a)	(1,318)	-	86,849
Derecognition(c)	(3,123)	-	(103,215)
Change in exchange rate or others	-	-	(1,340)
Balance at December 31, 2020	<u>\$ 72</u>	<u>\$ 2,852</u>	<u>\$ 50,092</u>
Balance at January 1, 2019	\$ 10,485	\$ -	\$ -
Transfers			
From performing to default(a)	(378)	-	67,798
New financial assets purchased(b)	2,018	-	-
Derecognition(c)	(6,338)	-	-
Balance at December 31, 2019	<u>\$ 5,787</u>	<u>\$ -</u>	<u>\$ 67,798</u>

- Due to bond issuer, Virgin Australia Holdings Ltd filed for bankruptcy protection, which lowers its bond credit rating from performing to default. After the creditors' committee agreed to turn it over to the new management team to negotiate a debt management plan, it increased credit default rating and the loss allowance of \$50,092 thousand in accordance with the plan; in addition, Bond issuers, Nuoxi Capital Limited and Kunzhi Limited, are affiliate to Peking University Founder Group. They also increased credit default rating and the rating of its bonds issued transferred from performing to default after the Founder Group has entered a restructuring process following its bonds default. However, the group administrator did not confirm the amount of debt held by the Company. The Company recognized the loss allowance of \$36,757 thousand; additionally, bond issuers, Vedanta Resources Plc's, ranking changed from B3 to CAA1 as a result of this credit rating action. The credit rating is changed from performing to doubtful, which increases the loss allowance of \$1,578 thousand correspondingly for doubtful credit rating.
- The Company purchased foreign corporate bonds of \$249,390 thousand in 2019, and increased the loss allowance for those of normal credit rating by \$2,018 thousand.
- The Company sold foreign corporate bond of \$477,291 and \$493,126 thousand in 2020 and 2019, and derecognized the relevant loss allowance for those of normal credit rating by \$106,338 and \$6,338 thousand at the same time.

- d. In 2020 and 2019, the Company generated a loss on disposal of investments of \$67,231 and a gain \$13,777 thousand, interest income of \$17,980 and \$49,953 thousand, foreign exchange loss \$5,938 and loss \$9,525 thousand and unrealized evaluation loss \$583 and gain \$58,288 thousand (recognized in other comprehensive income) from holding of the foreign corporate bonds mentioned above.

## 10. ACCOUNTS RECEIVABLE

	December 31	
	2020	2019
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 37,457	\$ 43,798
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 37,457</u>	<u>\$ 43,798</u>

The Company's average credit period of sales of goods is from 30 to 120 days. No interest was charged on accounts receivables.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base and the expected credit loss rate is immensely low. As of December 31, 2020 and 2019, accounts receivables of \$37,457 and \$43,798 thousand were not overdue amounts.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

## 11. INVENTORIES

	December 31	
	2020	2019
Finished goods	\$ 4,091	\$ 11,548
Work in progress	18,575	33,972
Raw materials	<u>3,781</u>	<u>3,607</u>
	<u>\$ 26,447</u>	<u>\$ 49,127</u>

The nature of the cost of goods sold were as follows

	<u>2020</u>	<u>2019</u>
Cost of goods sold	\$ 88,580	\$ 162,500
Loss on decline in market value	19,711	32,870
Unallocated production overhead (a)	<u>369</u>	<u>-</u>
	<u>\$ 108,660</u>	<u>\$ 195,370</u>

a. Unallocated production overhead includes the related expenses during shutdown period as the impact of Covid-19.

## 12. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements:

<u>Investor</u>	<u>Investee</u>	<u>Nature of Business</u>	<u>Proportion of Ownership (%)</u>	
			<u>December 31</u>	
			<u>2020</u>	<u>2019</u>
The Company	Honest Mount Investments Limited (Honest Mount)	Investment	100.00%	100.00%
The Company	Sheaffer Manufacturing Co., Ltd. (Taiwan Sihe)	Sales of stainless steel products	100.00%	100.00%
Taiwan Sihe	Shanghai Sihe Stainless Steel Products Co., Ltd. (Shanghai Sihe)	Manufacture and sales of stainless steel products	100.00%	100.00%
Honest Mount	King Cut	Sales of stainless steel products	100.00%	100.00%
Honest Mount	CS Solution Holding Limited	Hard disk repair services	100.00%	100.00%
			(Note)	(Note)
Honest Mount	Nantong Sihe Stainless Steel Products Co., Ltd. (Nantong Sihe)	Manufacture of stainless steel products	100.00%	100.00%
CS Solution Holding Limited	CS Solutions Technology Ltd	Hard disk repair services	100.00%	100.00%
			(Note)	(Note)
CS Solutions Technology Ltd.	Sky Tech International	Hard disk repair services	100.00%	100.00%
			(Note)	(Note)

Note: The board of directors decided to liquidate CS Solution Holding Limited and its subsidiaries in December 2019. The related procedures are in progress.

b. Subsidiaries excluded from consolidated financial statements: None.

### 13. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Other Equipment</u>	<u>Equipment under Finance Leases</u>	<u>Total</u>
<u>Cost</u>						
Balance at January 1, 2019	\$ 13,719	\$ 35,496	\$ 296	\$ 32,654	\$ 2,342	\$ 84,507
Adjustments on initial application of IFRS 16	-	-	-	-	(2,342)	(2,342)
Balance at January 1, 2019 (restated)	13,719	35,496	296	32,654	-	82,165
Additions	-	2,541	-	3,019	-	5,560
Disposals	-	(7,488)	(96)	(721)	-	(8,305)
Effect of foreign currency exchange differences	(545)	(1,534)	(8)	(644)	-	(2,731)
Balance at December 31, 2019	<u>\$ 13,174</u>	<u>\$ 29,015</u>	<u>\$ 192</u>	<u>\$ 34,308</u>	<u>\$ -</u>	<u>\$ 76,689</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2019	\$ 5,569	\$ 21,634	\$ 40	\$ 7,934	\$ 1,302	\$ 36,479
Adjustments on initial application of IFRS 16	-	-	-	-	(1,302)	(1,302)
Balance at January 1, 2019 (restated)	5,569	21,634	40	7,934	-	35,177
Impairment losses	-	-	-	6,231	-	6,231
Depreciation	4,570	3,344	84	11,517	-	19,515
Disposals	-	(5,241)	(64)	(201)	-	(5,506)
Effect of foreign currency exchange differences	(408)	(1,014)	(2)	(456)	-	(1,880)
Balance at December 31, 2019	<u>\$ 9,731</u>	<u>\$ 18,723</u>	<u>\$ 58</u>	<u>\$ 25,025</u>	<u>\$ -</u>	<u>\$ 53,537</u>
Carrying amounts at December 31, 2019	<u>\$ 3,443</u>	<u>\$ 10,292</u>	<u>\$ 134</u>	<u>\$ 9,283</u>	<u>\$ -</u>	<u>\$ 23,152</u>
<u>Cost</u>						
Balance at January 1, 2020	\$ 13,174	\$ 29,015	\$ 192	\$ 34,308	\$ -	\$ 76,689
Additions	42	-	-	3,366	-	3,408
Disposals	-	-	(192)	(27,260)	-	(27,452)
Reclassification	-	2,397	-	-	-	2,397
Effect of foreign currency exchange differences	207	629	-	(2)	-	834
Balance at December 31, 2020	<u>\$ 13,423</u>	<u>\$ 32,041</u>	<u>\$ -</u>	<u>\$ 10,412</u>	<u>\$ -</u>	<u>\$ 55,876</u>
<u>Accumulated depreciation</u>						
Balance at January 1, 2020	\$ 9,731	\$ 18,723	\$ 58	\$ 25,025	\$ -	\$ 53,537
Depreciation	3,317	2,357	9	2,334	-	8,017
Disposals	-	-	(66)	(21,917)	-	(21,983)
Reclassification	-	1,599	-	-	-	1,599
Effect of foreign currency exchange differences	215	483	(1)	(38)	-	659
Balance at December 31, 2020	<u>\$ 13,263</u>	<u>\$ 23,162</u>	<u>\$ -</u>	<u>\$ 5,404</u>	<u>\$ -</u>	<u>\$ 41,829</u>
Carrying amounts at December 31, 2020	<u>\$ 160</u>	<u>\$ 8,879</u>	<u>\$ -</u>	<u>\$ 5,008</u>	<u>\$ -</u>	<u>\$ 14,047</u>

For the information on the impairment of the property, plant and equipment of the Company, please refer to Note 21 (c) Other gains and losses. The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings	20 years
Machinery and Equipment	3-10 years
Transportation Equipment	5 years
Other Equipment	3-5 years

## 14. LEASE ARRANGEMENTS

### a. Right-of-use assets

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Carrying amounts</u>		
Buildings	\$ 18,649	\$ 11,784
Machinery	-	222
	<u>\$ 18,649</u>	<u>\$ 12,006</u>
	<u>2020</u>	<u>2019</u>
Additions to right-of-use assets	<u>\$ 19,990</u>	<u>\$ 6,926</u>
Depreciation charge for right-of-use assets		
Buildings	\$ 12,330	\$ 15,754
Machinery	-	924
	<u>\$ 12,330</u>	<u>\$ 16,678</u>
Income from the sublease of right-of-use assets (presented in rental income)	<u>\$ 1,530</u>	<u>\$ 167</u>

### b. Lease liabilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Carrying amounts</u>		
Current	<u>\$ 8,110</u>	<u>\$ 9,588</u>
Non-current	<u>\$ 6,947</u>	<u>\$ 2,415</u>

Range of discount rate for lease liabilities was as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Buildings	4.750%-4.756%	3.625%-4.756%
Machinery	-	4.756%-5.50%

### c. Material lease-in activities and terms

The Company also leases buildings for the use of plants and offices with lease terms of 2-3 years. The Company does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

### d. Other lease information

	<u>2020</u>	<u>2019</u>
Expenses relating to short-term leases	<u>\$ 328</u>	<u>\$ 4,153</u>

Total cash outflow for leases	\$ <u>3,778</u>	\$ <u>(10,128)</u>
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The Company leases certain building and building lease which qualify as short-term leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

For the year ended December 31, 2019, expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied (including lease commitments for short-term leases with lease terms commencing after the balance sheet dates) was \$81 thousand as of December 31, 2019.

All lease commitments (the Company as lessee) with lease terms commencing after the balance sheet dates are as follows:

	<u>December 31, 2020</u>
Lease commitment	<u>\$ 11,382</u>

Nantong, one of the subsidiaries, signed the contract of lease compensation agreement with the local government, please refer to Note 18.

## 15. GOODWILL

The Company acquired 100% equity of King Cut, Taiwan Sihe and its subsidiary Shanghai Sihe in August 2014. The goodwill and customer relationship arose from the value of expected synergies of the combination, revenue growth and future market development in the above acquisition. In order to cooperate with the environmental comprehensive rectification plan required by the local government, Shanghai Sihe moved to Nantong Sihe to continue production and operation in October 2017. Therefore, the goodwill is only related to the cash-generating unit which consists of Nantong Sihe and King Cut. The impairment of goodwill and customer relations are assessed by calculating the recoverable amount of the cash-generating unit and the carrying amount of the assets. The recoverable amount of the cash-generating unit is less than the carrying amount. Therefore, an impairment loss of \$144,474 and \$39,017 thousand were recognized in 2019.

## 16. INTANGIBLE ASSETS

	<u>Computer Software</u>	<u>Customer Relations</u>	<u>Total</u>
<u>Cost</u>			
Balance at January 1, 2020	\$ 12,146	\$ -	\$ 12,146
Additions	49	-	49
Disposals	(9,702)	-	(9,702)
Effect of foreign currency exchange differences	<u>30</u>	<u>-</u>	<u>30</u>
Balance at December 31, 2020	<u>\$ 2,523</u>	<u>\$ -</u>	<u>\$ 2,523</u>



	<u>Computer Software</u>	<u>Customer Relations</u>	<u>Total</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2020	\$ (7,132)	\$ -	\$ (7,132)
Amortization expense	(427)	-	(427)
Disposals	5,355	-	5,355
Effect of foreign currency exchange differences	<u>(27)</u>	<u>-</u>	<u>(27)</u>
Balance at December 31, 2020	<u>\$ (2,231)</u>	<u>\$ -</u>	<u>\$ (2,231)</u>
Carrying amounts at December 31, 2020	<u>\$ 292</u>	<u>\$ -</u>	<u>\$ 292</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 11,246	\$ 83,605	\$ 94,851
Additions	978	-	978
Effect of foreign currency exchange differences	<u>(78)</u>	<u>-</u>	<u>(78)</u>
Balance at December 31, 2019	<u>\$ 12,146</u>	<u>\$ 83,605</u>	<u>\$ 95,751</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2019	\$ (3,381)	\$ (36,228)	\$ (39,609)
Amortization expense	(2,326)	(8,360)	(10,686)
Impairment loss (Note 15 and 21)	(1,480)	(39,017)	(40,497)
Effect of foreign currency exchange differences	<u>55</u>	<u>-</u>	<u>55</u>
Balance at December 31, 2019	<u>\$ (7,132)</u>	<u>\$ (83,605)</u>	<u>\$ (90,737)</u>
Carrying amounts at December 31, 2019	<u>\$ 5,014</u>	<u>\$ -</u>	<u>\$ 5,014</u>

Intangible assets were amortized on a straight-line basis over the estimated useful lives as follows:

Computer Software	3-10 years
Customer relations	10 years

## 17. SHORT-TERM BORROWINGS

	December 31	
	2020	2019
<u>Secured borrowings</u>		
Bank loans	\$ -	\$ 49,050
Other financial institutions	-	372,940
	<u>\$ -</u>	<u>\$ 421,990</u>

The secured borrowings of other financial institutions are wealth management loans financed from Morgan Stanley Asia International Limited and Nomura Singapore Limited for the acquisition of foreign corporate bonds. 2.51%-2.98% at December 31, 2019. Refer to Note 28 for information relating to foreign corporate bonds pledged as security.

The borrowing rates on bank loans were 1.31%~1.35% per annum as of December 31, 2019.

## 18. PROVISIONS

Honest Mount signed the investment agreement with Nantong local government in April 2017. Its subsidiary, Nantong Sihe, invested and built new plants in Nantong. During construction period (from July 2017 to June 2020), the local government will rent local existing plants and pay for the rent expenses for Nantong Sihe to have free access to use. Due to the initial application of IFRS 16 on January 1 2019, the Company recognized the right-of-use lease liabilities \$18,357 thousands. Until December 31 2019, the rent expenses of the agreement were paid by the local government of Nantong (government grants). In the future, Nantong Sihe might need to return part of government grants. It depends on whether Nantong Sihe fulfills its obligations of the agreement regarding to the investment projects with the local government or not. Therefore, the Company recognized provision which transferred from lease liabilities each month in 2019 before complete fulfillment of the agreement. After completion of the agreement, the provision will be reclassified to government grants income.

## 19. RETIREMENT BENEFIT PLANS

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

The employees of the Company's subsidiaries in China and other countries are members of state-managed retirement benefit plans operated by the local government. Each subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit plan is to make the specified contributions.

## 20. EQUITY

### a. Share capital Common stocks

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Number of shares authorized (in thousands)	<u>100,000</u>	<u>100,000</u>
Shares authorized	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>45,779</u>	<u>45,779</u>
Shares issued	<u>\$ 457,790</u>	<u>\$ 457,790</u>

### b. Capital surplus

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Recognized from issuance of common stocks (1)	\$ 48,918	\$ 440,140
Employee share options (2)	<u>6,260</u>	<u>12,460</u>
	<u>\$ 55,178</u>	<u>\$ 452,600</u>

The Company's capital surplus change is the recognition of compensation costs of employee share options.

- 1) The capital surplus generated from the excess of the issuance price over the par value of capital stock may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of the Company's paid-in capital.
- 2) The capital surplus arising from the employee share options may not be used for any purpose.

### c. Retained earnings and dividend policy

Under the dividend policy as set forth in the amended Articles of Incorporation, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The distribution amount in the preceding paragraph shall not be less than 10 percent of the distributable earnings, for the policies on the distribution of employees' compensation and remuneration of directors, refer to Note 21 (g) on employees' compensation and remuneration of directors.

The dividend distribution policy of the Company shall depend on the current and future investment environment, fund demand, domestic and foreign competition situation, and capital budget, etc., and taking into the shareholders' interest, balancing dividends and the long-term financial planning of the Company. The board of directors shall submit a proposal for distribution of profits for approval at a shareholders' meeting every year. The Company's annual cash dividends are at least 10 percent of the total dividends.

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

Under Rule No. 1010012865 and issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse a special reserve.

The appropriations of earnings for 2019 and 2018 were approved in the shareholders' meetings on June 24, 2020 and June 25, 2019, respectively, were as follows:

	<u>2019</u>	<u>2018</u>
Legal reserve offset loss	\$ -	\$ 28,589
Capital reserve offset loss	391,222	177,321

## 21. NET LOSS

### a. Interest income

	<u>2020</u>	<u>2019</u>
Investments in equity instruments at FVTPL	\$ 678	\$ -
Investments in debt instruments at FVTOCI	17,980	49,953
Bank deposits	<u>715</u>	<u>1,417</u>
	<u>\$ 19,373</u>	<u>\$ 85,103</u>

### b. Other income

	<u>2020</u>	<u>2019</u>
Government grants	\$ 3,854	\$ 559
Rental income	1,530	167
Others	<u>4,923</u>	<u>5,668</u>
	<u>\$ 10,307</u>	<u>\$ 6,394</u>

### c. Other gains and losses

	<u>2020</u>	<u>2019</u>
(Loss) Gain on disposal of financial assets, net		
Investments in debt instruments at FVTOCI	\$ (67,231)	\$ 13,777
Net foreign exchange losses	(23,009)	(5,211)
Gain (Loss) on disposal of property, plant and equipment	1,314	(2,291)
Gain on financial assets mandatorily measured at FVTPL	13,707	1,507
Gain on lease modification	57	7
Impairment loss	-	(196,519)
Others	<u>(249)</u>	<u>(40)</u>
	<u>\$ (75,411)</u>	<u>\$ (188,770)</u>

The board of directors decided to liquidate CS Solution Holding Limited and its subsidiaries in December 2019. The Company recognized the impairment loss of the property, plant and equipment and other assets, goodwill and intangible assets \$6,231、\$5,317 and \$1,480 thousands, respectively。

d. Finance costs

	<u>2020</u>	<u>2019</u>
Interest expense on bank loans	\$ 2,423	\$ 15,408
Interest on lease liabilities	574	780
	<u>\$ 2,997</u>	<u>\$ 16,188</u>

e. Depreciation and amortization

	<u>2020</u>	<u>2019</u>
Property, plant and equipment	\$ 8,017	\$ 19,515
Right-of-use assets	12,330	16,678
Intangible assets	427	10,686
	<u>\$ 20,774</u>	<u>\$ 46,879</u>

An analysis of depreciation by function

Operating costs	\$ 11,279	\$ 11,519
Operating expenses	9,068	24,674
	<u>\$ 20,347</u>	<u>\$ 36,193</u>

An analysis of amortization by function

Operating expenses	<u>\$ 427</u>	<u>\$ 10,686</u>
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f. Employee benefits expense

	<u>2020</u>	<u>2019</u>
Short-term benefits	\$ 33,058	\$ 112,119
Post-employment benefits (Note 19)		
Defined contribution plans	1,473	7,026
Share-based payments		
Equity-settled	(6,200)	1,842
Total employee benefits expense	<u>\$ 28,331</u>	<u>\$ 120,987</u>

An analysis of employee benefits expense by function

Operating costs	\$ 13,515	\$ 44,874
Operating expenses	14,816	76,113
	<u>\$ 28,331</u>	<u>\$ 120,987</u>

g. Employees' compensation and remuneration of directors

The Company accrued employees' compensation and remuneration of directors at the rates between 1% to 10% and not higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The Company was loss both in 2020 and in 2019, so the amount of employees' compensation and remuneration of directors was not estimated.

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

## 22. INCOME TAXES

### a. Major components of tax expense recognized in profit or loss

	<u>2020</u>	<u>2019</u>
Current income tax		
Adjustments for prior years	\$ -	\$ (4,515)
Deferred income tax		
In respect of the current year	<u>(605)</u>	<u>(97)</u>
Income tax benefit recognized in profit or loss	<u>\$ (605)</u>	<u>\$ (4,612)</u>

A reconciliation of accounting profit and income tax benefit were as follows:

	<u>2020</u>	<u>2019</u>
Loss before tax	<u>\$ (192,024)</u>	<u>\$ (379,173)</u>
Income tax expense calculated at the statutory rate	\$ (38,405)	\$ (75,835)
Nondeductible tax expenses	3,169	34,072
Unrecognized deductible temporary differences	(10,533)	37,589
Loss carryforwards (carryback)	45,164	4,077
Adjustments for prior years' tax	<u>-</u>	<u>(4,515)</u>
Income tax benefit recognized in profit or loss	<u>\$ (605)</u>	<u>\$ (4,612)</u>

### b. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Loss carryforwards	<u>\$ 704,597</u>	<u>\$ 475,890</u>

The above is not recognized as deferred tax assets is due to the Company is not likely to have sufficient taxable income for use in the future.

### c. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2020 comprised:

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 422,026	2024
36,529	2027
2,539	2028
22,341	2029
<u>226,852</u>	2030
<u>\$ 710,287</u>	

d. Income tax assessments

The latest annual income tax returns that have been assessed by the tax authorities were as follows:

<u>Company</u>	<u>Year</u>
The Company	2019
Taiwan Sihe	2019
CS Solution Holding Limited Taiwan Branch	2018

**23. LOSS PER SHARE**

**Unit: NT\$ Per Share**

	<u>2020</u>	<u>2019</u>
Basic or diluted loss per share	<u>\$ (4.18)</u>	<u>\$ (8.18)</u>

The weighted average number of ordinary shares outstanding in the computation of loss per share was as follows:

**Net Loss for the Year**

	<u>2020</u>	<u>2019</u>
Loss used in the computation of basic or diluted loss per share	<u>\$ (191,419)</u>	<u>\$ (374,561)</u>

**Weighted Average Number of Common Stocks Outstanding (in Thousand Shares):**

	<u>2020</u>	<u>2019</u>
Weighted average number of common stocks used in the computation of basic or diluted loss per share	<u>45,779</u>	<u>45,779</u>

**24. SHARE-BASED PAYMENT ARRANGEMENTS**

Qualified employees of the Company and its subsidiaries were granted 2,000 thousand options and 1,650 thousand options in August 2016, June and July 2017, respectively. (Hereinafter referred to as the "Second Share Option Plan" and "Third Share Option Plan"). Each option entitles the holder to subscribe for one ordinary share of the Company. The second share option plan and the third share option plan granted are valid for 10 years and exercisable at certain percentages after the second anniversary, third anniversary and fourth anniversary from the grant date. The second share option plan and the third share option plan were granted at exercise prices of \$14.3 and \$19.2/\$19.1 respectively, equal to the closing price of the Company's ordinary shares listed on the Taipei Exchange on the grant date. For any subsequent changes in the Company's common stocks, the exercise price is adjusted accordingly.

Information on employee share options were as follows:

Employee Share Option	2020		2019	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Balance at January 1	2,325	\$ 16.2	2,575	\$ 16.1
Options expired	<u>(1,150)</u>	18.1	<u>(250)</u>	15.4
Balance at December 31	<u>1,175</u>	14.4	<u>2,325</u>	16.2
Options exercisable, end of period	<u>1,119</u>	14.2	<u>1,431</u>	15.7
Weighted-average fair value of options granted (NT\$)	<u>-</u>	-	<u>-</u>	-

Information about the second outstanding options as of the reporting date was as follows:

	December 31, 2020
Range of exercise price (NT\$)	\$ 13.5
Weighted-average remaining contractual life (in years)	5.58

Information about the third outstanding options as of the reporting date were as follows:

	December 31, 2020	
	Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (In Years)
1,650 thousand units granted in June and July 2017	\$18.2/\$19.1	6.42/6.50

The second options granted in 2016 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Second Anniversary	Third Anniversary	Fourth Anniversary
Grant-date share price (NT\$)	14.3	14.3	14.3
Exercise price (NT\$)	14.3	14.3	14.3
Expected volatility	34.73%	34.73%	34.73%
Expected life (in days)	730 days	1,095 days	1,460 days
Expected dividend yield	-	-	-
Risk-free interest rate	0.63%	0.64%	0.65%

The third options granted in 2017 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:



	<b>Second Anniversary</b>	<b>Third Anniversary</b>	<b>Fourth Anniversary</b>
Grant-date share price (NT\$)	19.2	19.2	19.2
Exercise price (NT\$)	19.2	19.2	19.2
Expected volatility	34.04%	34.04%	34.04%
Expected life (in days)	730 days	1,095 days	1,460 days
Expected dividend yield	-	-	-
Risk-free interest rate	0.86%	0.90%	0.93%

The Company will calculate the fair value of the employee share options by vesting period (second anniversary, third anniversary and fourth anniversary) granted in August 2016, June and July 2017, respectively.

<b>Vesting Period</b>	<b>Second Anniversary</b>	<b>Third Anniversary</b>	<b>Fourth Anniversary</b>
Fair value of the second share options (NT\$/per share)	\$4.89	\$5.09	\$5.27
Fair value of the third share options (NT\$/per share)	6.54	6.82	7.08

(Reversal of) compensation costs recognized were (\$6,200) thousand and \$1,842 thousand for the years ended December 31, 2020 and 2019, respectively.

## 25. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash) and equity of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company is not subject to other external capital requirements.

Key management personnel of the Company review the capital structure on an annually basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders, the number of shares repurchased, and the amount of new loan issued or existing loan redeemed.

## 26. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments that are not measured at fair value

The Company's management considers the carrying amounts recognized in the consolidated financial statements for financial assets and financial liabilities not carried at fair value to approximate their fair values.

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

1) Fair value hierarchy

	<b>December 31, 2020</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<u>Financial assets at FVTPL</u>				
Publicly traded stocks	\$ 29,599	\$ -	\$ -	\$ 29,599
<u>Financial assets at FVTOCI</u>				
Foreign listed securities	\$ 65,792	\$ -	\$ -	\$ 65,792
<b>December 31, 2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>Financial assets at FVTPL</u>				
Publicly traded stocks	\$ 18,169	\$ -	\$ -	\$ 18,169
<u>Financial assets at FVTOCI</u>				
Foreign listed securities	\$ 708,269	\$ -	\$ -	\$ 708,269

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

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily measured at FVTPL	\$ 29,599	\$ 18,169
Financial assets at amortized cost (1)	206,122	148,371
Financial assets at FVTOCI		
Investments in debt instruments	65,792	708,269
<u>Financial liabilities</u>		
At amortized cost (2)	37,245	472,596

1) The balances include financial assets at amortized cost, which comprise cash, accounts receivable, other receivables, restricted current assets and refundable deposits.

2) The balances included financial liabilities measured at amortized cost, which comprise

short-term borrowings, accounts payable, other payables, finance leases payables and guarantee deposits received.

d. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, accounts receivable, short-term borrowings, accounts payable and lease liabilities. The Company's major financial risk management objective is to manage the financial risk associated with operating activities. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company is committed to identify, assess and avoid the uncertainty of market and reduce the market changes against the Company's financial performance potential downside effects.

The Company due to the exposure generated by the operation, mainly in the US dollar, the Company uses the foreign currency denominated purchases and sales of goods and related currency loans to generate natural hedging effect. The use of foreign currency loans was governed by the Company's policies approved by the board of directors. Internal auditors continue to review policy compliance.

1) Market risk

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

a) Foreign currency risk

The Company had foreign currency investments, sales and purchases, which were exposed to foreign currency risk. The part of the Company's foreign currency receivables were same with the foreign currency payments, at this time, the certain parts will have natural hedging effects.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 30.

Sensitivity analysis

The Company was mainly exposed to the currency USD.

The sensitivity analysis details the Company's sensitivity to a 3% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The rate of 3% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 3% change in foreign currency rates. A 3% increase/decrease in the functional currencies against the relevant foreign currencies, the pre-tax loss for the years ended December 31, 2020 and 2019 would increase/decrease by \$9,345 thousand and \$14,839 thousand, respectively. Impact of the above exchange rate fluctuations, these were mainly attributable to the exposure of outstanding receivables and payables, foreign currency cash, debt investments and short-term borrowing, which were not hedged at the balance sheet date.

b) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost - effective hedging strategies are applied.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value interest rate risk		
Financial assets	\$ -	\$ 200
Financial liabilities	15,057	53,003
Cash flow interest rate risk		
Financial assets	162,137	82,629
Financial liabilities	-	380,990

Note: The Company's financial assets at FVTOCI are affected by the price change of the interest rate, please refer to (c) other price risk.

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. An increase or decrease of 25 basis points (0.25%) was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax loss for the years ended December 31, 2020 and 2019 would decrease by \$405 thousand and increase by \$746 thousand, respectively.

Additionally, if the Federal Reserve System would announce interest rate increase, the interest rate increased by 10bps to 100bps, in other cases were held constant, the Company may increase interest expenses, the pre-tax loss for the years ended December 31, 2019 and 2018 would increase by \$373 thousand to \$3,729 thousand.

c) Other price risk

The Company was exposed to equity price risk through its investments in bond investments.

Sensitivity analysis

It was assessed based on the equity price risk at the end of the reporting period.

If equity prices had been 5% higher/lower, the loss before tax will increase/decrease by \$1,480 thousand and \$908 thousand respectively, as a result of the changes financial assets at FVTPL. The other comprehensive income for the year ended December 31, 2020 and 2019 would decrease /increase by \$3,290 and \$35,413 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

Additionally, if the Federal Reserve System would announce interest rate increase, the interest rate increased by 10bps to 100bps, in other cases were held constant, the other comprehensive income for the year ended December 31, 2020 and 2019 would decrease by \$97 thousands to \$970 thousands and \$3,200 thousands to \$20,381 thousands.

## 2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure to discharge an obligation by the counterparties arises from the carrying amounts of the respective recognized financial assets as stated in the consolidated balance sheets.

The Company adopted a policy of dealing with creditworthy counterparties or transacting with entities that have the equivalent of an investment grade rating or above and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company also has the right to use some credit protection enhancement tools, such as requiring advance payments, to reduce the credit risks involving certain customers.

### Credit risk related to operation

The credit risk of the Company's was mainly concentrated on the accounts receivables from the three largest customers and foreign bonds investments. As of December 31 2020 and 2019, the total amount of accounts receivables from the above customers was 99% and 98%, respectively.

In order to minimize credit risk, the Company's management is responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that appropriate actions have been taken to recover overdue debts. In addition, the Company further reviews the recoverable amount of the accounts receivable at the end of the reporting period to ensure that adequate allowance for impairment loss is made for irrecoverable amounts. In this regard, management believes the Company's credit risk was significantly reduced.

Ongoing credit evaluation is performed on the financial condition of the trade receivable customers and the potential impact to financial assets that the Company might encounter if counterparties or third parties breach the contracts. The Company evaluated credit risk exposure for contracts with positive carrying value. The Company evaluated the credit risk exposure as immaterial because all counterparties are reputable financial institutions and companies.

### Financial credit risk

The policy adopted by the Company is to invest in debt instruments with low impairment assessment in credit risk. The Company continues to track relevant information to monitor

changes in the credit risk of the debt instruments it invests in and examines other information such as the debtor's significant information to evaluate whether the credit risk of debt instrument investments has increased significantly.

The Company assesses the 12-month expected credit loss and lifetime expected credit loss based on the probability of default and loss given default provided by external credit rating agencies. The current credit risk assessment policies are as follows:

<u>Category</u>	<u>Description</u>	<u>Basis for Recognizing Expected Credit Loss</u>
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12 months expected credit loss
Doubtful	Assets with significant increase in credit risk since initial recognition	Lifetime expected credit loss-not credit impaired
In default	There is evidence indicating the asset is credit-impaired	Lifetime expected credit loss-credit impaired

Refer to Note 9 for information relating to the carrying amounts of the Company's allowance at the end of the reporting period of 2020 and 2019.

### 3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

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

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table included both interest and principal cash flows.

Bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2020

	<u>1-3 Months</u>	<u>3 Months to 1 Year</u>	<u>1+ Years</u>
Non-interest bearing debt	\$ 37,245	\$ -	\$ -
Finance lease liabilities	<u>502</u>	<u>8,111</u>	<u>7,108</u>
	<u>\$ 37,747</u>	<u>\$ 8,111</u>	<u>\$ 7,108</u>

December 31, 2019

	<u>1-3 Months</u>	<u>3 Months to 1 Year</u>	<u>1+ Years</u>
Non-interest bearing debt	\$ 48,998	\$ -	\$ -
Finance lease liabilities	4,386	5,733	2,470
Variable interest rate liabilities	28	386,233	-
Fixed interest rate liabilities	<u>41,138</u>	<u>-</u>	<u>-</u>
	<u>\$ 94,550</u>	<u>\$ 391,966</u>	<u>\$ 2,470</u>

b) Financing facilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Secured bank overdraft facility		
Amount used	\$ -	\$ 421,990
Amount unused (Note)	<u>95,391</u>	<u>317,570</u>
	<u>\$ 95,391</u>	<u>\$ 739,560</u>

Note: Determining the available amount based on the market price of the collateral.

## 27. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions within the Company had been eliminated upon consolidation. Details of transactions between the Company and other related parties are disclosed below:

a. Compensation of key management personnel

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 9,785	\$ 20,822
Share-based payments	241	1,840
Termination benefits	-	667
Post-employment benefits	<u>153</u>	<u>70</u>
	<u>\$ 10,179</u>	<u>\$ 23,399</u>

The compensation to the Company's key management personnel was determined according to personal performance and market trends

## 28. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for financial and investment institution borrowings:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Financial assets at FVTPL	\$ -	\$ 18,169
Financial assets at fair value through other comprehensive income	-	708,269

Restricted assets (classified as financial assets at amortized cost)	1	53,875
Pledged deposits(classified as financial assets at amortized cost)	-	200
	<u>\$ 1</u>	<u>\$ 780,513</u>

## 29. Other concerns

Due to the impact of the Covid-19 pandemic, the Company continues in evaluating the impact on its operational capability, fundraising situation, and impairment of assets affected insignificantly as of the date the accompanying consolidated financial statements were authorized for issue. Because of uncertainty of pandemic, the Company will continue focusing on the developing of pandemic and evaluating its influence.

## 30. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Company entities' significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2020

	<u>Foreign Currencies (In Thousands)</u>	<u>Exchange Rate</u>	<u>Carrying Amount (In Thousands)</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 11,195	28.48 (USD:NTD)	\$ 318,833
<u>Financial liabilities</u>			
Monetary items			
USD	258	28.48 (USD:NTD)	7,348

December 31, 2019

	<u>Foreign Currencies (In Thousands)</u>	<u>Exchange Rate</u>	<u>Carrying Amount (In Thousands)</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 28,962	29.980 (USD:NTD)	\$ 868,280
<u>Financial liabilities</u>			
Monetary items			
USD	12,463	29.980 (USD:NTD)	373,641

For the years ended December 31, 2020 and 2019, realized and unrealized net foreign exchange losses were \$23,009 thousand and \$5,211 thousand, respectively.



### 31. SEPARATELY DISCLOSED ITEMS

- a. Information about significant transactions and investees:
- 1) Financing provided to others. (Table 1)
  - 2) Endorsements/guarantees provided. (None)
  - 3) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities). (Table 2)
  - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
  - 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
  - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
  - 9) Information about the derivative financial instruments transaction. (None)
  - 10) Intercompany relationships and significant intercompany transactions. (Table 4)
  - 11) Information on investees. (Table 5)
- b. Information on investment in mainland China
- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee.: Please see Table 6 attached.
  - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information: Please see Table 1 attached.
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
    - c) The amount of property transactions and the amount of the resultant gains or losses.

- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.
- d. Information of major shareholders  
List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 7)

### 32. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The Company's reportable segment was mainly the stainless steel products segment, so please refer to the consolidated balance sheet and the consolidated statements of comprehensive income for the related segment revenue, operating results and assets and liabilities.

#### a. Geographical information

The Company's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		December 31	
	2020	2019	2020	2019
United States of America	\$ 86,802	\$ 171,908	\$ -	\$ 3,136
Europe	7,040	-	-	-
China	5,450	4,103	34,786	27,896
Taiwan	2,249	1,809	2,532	14,802
Others	-	580	-	-
	<u>\$ 101,541</u>	<u>\$ 178,400</u>	<u>\$ 37,318</u>	<u>\$ 45,834</u>

Note: Revenue is classified based on the country in which the customer is located, and non-current assets exclude goodwill and deferred tax assets.

#### b. Major customers

External customer which accounted for 10% or more of the Company's total revenues were as follows:

Customer	2020		2019	
	Amount	%	Amount	%
Customer A	<u>\$ 86,802</u>	85	<u>\$ 169,770</u>	95

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limits	Note
													Item	Value			
1	King Cut	Honest Mount	Other receivables	Yes	\$170,880	\$170,880	\$130,011	-	Short-term financing	-	Operation requirements	-	-	-	\$1,557,523	\$1,557,523	3
2	Taiwan Sihe	The Company	Other receivables	Yes	59,808	2,706	2,706	-	Short-term financing	-	Operation requirements	-	-	-	38,269	47,836	1 and 2
3	Honest Mount	The Company	Other receivables	Yes	85,440	85,440	56,960	-	Short-term financing	-	Operation requirements	-	-	-	7,855,630	7,855,630	3
4	Shanghai Sihe	King Cut	Other receivables	Yes	149,173	149,173	149,173	-	Short-term financing	-	Operation requirements	-	-	-	620,634	620,634	3

Note 1: The financing limit for each borrower is calculated based on the lender's 40% of the net worth of the audited financial statements on December 31, 2020.

Note 2: The aggregate financing limit is calculated based on the lender's 50% of the net worth of the audited financial statements on December 31, 2020.

Note 3: The financing limit for each borrower is calculated based on the lender's 3000% of the net worth of the audited financial statements on December 31, 2020.

Note 4: Related to foreign currencies, foreign currencies convert to New Taiwan Dollar using the conversion rate of 31 December, 2020.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
Honest Mount	<u>Stocks</u> UBER TECHNOLOGIES INC COM STK	None	Financial assets at fair value through Profit or Loss- current	20	\$ 29,599	-	\$ 29,599	-
	<u>Corporate bonds</u> VIRGIN AUSTRALIA HOLDINGS LTD	None	Financial assets at fair value through other comprehensive income - current	1,900	5,736	-	5,736	-
	VEDANTA RESOURCES PLC	None	Financial assets at fair value through other comprehensive income - current	2,000	51,008	-	51,008	Notes 2 and 4
	RKPF OVERSEAS 2019 A LTD	None	Financial assets at fair value through other comprehensive income - current	300	9,048	-	9,048	Notes 2 and 3

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instrument'.

Note 2: The order of Moody's rating is Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C in descending order to indicate the high and low within the main rating.

Note 3: The Moody's credit rating is Ba3.

Note 4: The Moody's credit rating is Caa1.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
King Cut	Honest Mount	Same ultimate parent company	Other receivables \$ 130,011	Note	\$ -	-	\$ -	\$ -
Shanghai Sihe	King Cut	Same ultimate parent company	Other receivables 152,561	Note	\$ 3,388	Aggressive collection	-	-

Note: The turnover rate is unavailable as the ending balance is consisted of other receivables, which is due to financing provided to others.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
 FOR THE YEAR ENDED DECEMBER 31, 2020  
 (In Thousands of New Taiwan Dollars)

Number	Company Name	Counterparty	Relationship (Note 1)	Transaction Details			% to Consolidated Revenue or Total Assets
				Financial Statements Account	Amount	Transaction Terms	
0	The Company	Honest Mount	1	Other payables	\$ 56,960	Note 3	15
		Nantong Sihe	1	Purchases	43,498	Note 2	43
		Nantong Sihe	1	Accounts payable	42,410	Note 3	11
		King Cut	1	Other expenses	10,134	Note 2	10
1	Taiwan Sihe	Shanghai Sihe	3	Other receivables	67,668	Note 3	17
2	King Cut	Shanghai Sihe	3	Other payables	152,561	Note 3	39
		Shanghai Sihe	3	Other receivables	75,665	Note 3	20
		Nantong Sihe	3	Purchases	47,406	Note 2	47
		Honest Mount	3	Other receivables	130,011	Note 3	34
3	CS Solution Holding Limited	CS Solutions Technology Ltd	3	Other payables	12,408	Note 3	3

Note 1: No. 1 represents the transactions from parent company to subsidiary.  
 No. 2 represents the transactions from subsidiary to parent company.  
 No. 3 represents the transactions between subsidiaries.

Note 2: Payment depends on the status of funds

Note 3: Normal payment terms, and collect payment depends on the status of funds.

Note 4: Disclosure of transactions over New Taiwan Dollar 10,000 thousands.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2020 (Foreign Currencies in Thousands)	December 31, 2019 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership (%)	Carrying Amount			
The Company	Taiwan Sihe Honest Mount	Taiwan	Sales of stainless steel products	\$ 536,997	\$ 596,997	100	100	\$ 103,551	\$ (7,490)	\$(15,367)	-
		British Virgin Islands	Investment	602,678	602,678	20,000	100	261,854	(158,880)	(158,880)	-
Honest Mount	King Cut	British Virgin Islands	Sales of stainless steel products	US\$ 200	US\$ 200	5	100	51,917	12,459	12,459	-
				( 5,696)	( 5,696)						
	CS Solution Holding Limited	British Virgin Islands	Hard disk repair services	277,156	275,837	9,090	100	11,514	1,002	1,002	-
CS Solution Holding Limited	CS Solutions Technology Ltd	U.S.A.	Hard disk repair services	US\$ 4,316 ( 122,920)	US\$ 4,316 ( 122,920)	216	100	12,596	(616)	(616)	-
CS Solutions Technology Ltd	Sky Tech International	U.S.A.	Hard disk repair services	US\$ 172 ( 4,899)	US\$ 172 ( 4,889)	0.1	100	-	-	-	-

Note: Refer to Table 6 for information on investments in mainland China.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
 FOR THE YEAR ENDED DECEMBER 31, 2020  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US\$ in Thousands)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020 (US\$ in Thousands)	Investment Flows for the year ended December 31, 2020		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020 (US\$ in Thousands)	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 3)	Carrying Amount as of December 31, 2020	Accumulated Repatriation of Investment Income as of December 31, 2020
					Outflow (US\$ in Thousands)	Inflow (US\$ in Thousands)						
Shanghai Sihe	Manufacture and sales of stainless steel products	\$ 74,333 (US\$ 2,610) (Note 6)	(Note 1)	\$ 145,533 (US\$ 5,110)	\$ -	\$ 3,532 (US\$ 124)	\$ 142,001 (US\$ 4,986)	\$ (2,276)	100	\$ (2,276)	\$ 20,668	\$ -
Nantong Sihe	Manufacture of stainless steel products	213,600 (US\$ 7,500)	(Note 2)	213,600 (US\$ 7,500)	-	-	213,600 (US\$ 7,500)	(36,738)	100	(36,738)	58,400	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2020 (US\$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 355,601 (US\$ 12,486)	\$ 359,133 (US\$ 12,610)	\$ 189,485 (Note 4)

Note 1: Taiwan Sihe had held 100% equity of Shanghai Sihe before the Company acquired Taiwan Sihe.

Note 2: Indirect investment in mainland China through Honest Mount, an investment company registered in a third area.

Note 3: The calculation of investment gain or loss was based on the financial statements audited by the Taiwan parent company's CPAs.

Note 4: The calculation was based on the Company's 60% of the net worth of the audited financial statements on December 31, 2020.

Note 5: Listing the amount of foreign currency in this table is based on the average exchange rate of USD\$1 to NT\$ 28.48 on December 31, 2020.

Note 6: Capital reduction in Shanghai Sihe is USD\$2,500 thousand, it already remits the amount of USD\$124 thousand of capital reduction as of December 31, 2020.



## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

Major shareholders information  
 FOR THE YEAR ENDED DECEMBER 31, 2020  
 (In Thousands of New Taiwan Dollars)

Name of major shareholders	Shares	
	Number of shares held	Ownership (%)
Qiming Technologies Holding Limited	9,422,000	20.58%
Ming-Tsung Lee	2,431,556	5.31%

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

## **Mutto Optronics Corporation**

### **Parent Company Only Financial Statements for the Years Ended December 31, 2020 and 2019 and Independent Auditors' Report**

#### *Notice to Readers*

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Mutto Optronics Corporation

### Opinion

We have audited the accompanying financial statements of Mutto Optronics Corporation (the "Company") which comprises the balance sheet as of December 31, 2020 and 2019, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for opinion

We conducted our audits of the financial statements for the year ended December 31, 2020 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Jin-Guan-Zheng-Shen-Zi Order No. 1090360805 as approved by the Financial Supervisory Commission on February, 25, 2020 and generally accepted auditing standards in the Republic of China, and our audits of the financial statements for the year ended December 31, 2019 in accordance with Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's parent company only financial statements for the year ended December 31, 2020 are stated as follows:

The Impairment Loss for Financial Assets at Fair Value Through Other Comprehensive Income from Investments Accounted under Equity Method

Subsidiaries of the Company engage mainly in investing in debt instruments. The management considers the historical default loss rate provided by the external rating agencies, the current financial position of the debtor and the forecast of the industry to measure the expected credit loss of debt instruments for a 12-month period or the duration. As it is significant that the impairment loss involve subjective judgment and assessment of the management, we determine that the impairment loss for financial assets at fair value through other comprehensive income financial assets as the key audit matters.

Our main audit procedures performed in respect of the Company's assessment of financial assets at fair value through other comprehensive income financial assets for impairment included the following:

1. Obtain the ending evaluation details of the fair value provided by the intermediary financial institution, re-calculate its correctness and analyze whether the abnormal fluctuations at the fair value caused by change in the credit risk.
2. Understand whether the management regularly evaluates the performance, operation profile, financial structure and future trends of the relevant investment targets in accordance with the provisions of the internal control system in order to understand whether the investment targets may cause defaults resulting in expected credit losses.
3. Examine whether the management assesses the impairment of the investment target in accordance with the expected credit losses.

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

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

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

Those charged with governance, including 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 the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh

the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Pei-De Chen and Wen-Chin Lin.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 29 , 2021

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

# MUTTO OPTRONICS CORPORATION

## PARENT COMPANY ONLY BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(In Thousands of New Taiwan Dollars)

ASSETS	2020		2019	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash (Notes 4 and 6)	\$ 20,887	5	\$ 3,188	-
Financial assets at amortized cost (Notes 4, 7 and 21)	1	-	53,875	8
Accounts receivables (Note 4 and 8)	36,317	8	241	-
Other receivables (Notes 4 and 20)	176	-	276	-
Prepayments and other current assets	5,113	1	5,228	1
Total current assets	62,494	14	62,808	9
<b>NON-CURRENT ASSETS</b>				
Investments accounted for under equity method (Notes 4, and 9)	365,405	85	597,144	89
Right-of-use assets (Notes 4 and 10)	1,672	-	5,626	1
Intangible assets (Note 4)	2	-	75	-
Deferred income tax assets (Notes 4 and 5)	2,418	1	2,418	1
Refundable deposits (Note 4)	858	-	1,269	-
Total non-current assets	370,355	86	606,532	91
<b>TOTAL ASSETS</b>	<b>\$ 432,849</b>	<b>100</b>	<b>\$ 669,340</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loan (Notes 10 and 21)	\$ -	-	\$ 49,050	7
Accounts payable (Note 20)	44,235	10	228	-
Other payables	11,137	3	4,577	1
Other payables to related parties (Notes 20)	59,666	14	98,934	15
Lease liabilities (Notes 4 and 10)	1,477	-	3,011	-
Other current liabilities	99	-	101	-
Total current liabilities	116,614	27	155,901	23
<b>NON-CURRENT LIABILITIES</b>				
Deferred income tax liabilities (Note 4)	427	-	105	-
Lease liabilities (Notes 4 and 10)	-	-	2,415	1
Total non-current liabilities	427	-	2,520	1
Total liabilities	117,041	27	158,421	24
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 13 and 17)</b>				
Common stock	457,790	106	457,790	68
Capital surplus	55,178	13	452,600	68
Accumulated deficit	-	-	-	-
Legal reserve	-	-	-	-
Accumulated deficit	(191,419)	(44)	(391,222)	(59)
Other equity	(5,741)	(2)	(8,249)	(1)
Total equity	315,808	73	510,919	76
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 432,849</b>	<b>100</b>	<b>\$ 669,340</b>	<b>100</b>

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

# MUTTO OPTRONICS CORPORATION

## PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Note 4)	\$ 48,037	100	\$ 249	100
OPERATING COSTS (Note 20)	<u>45,238</u>	<u>94</u>	<u>237</u>	<u>95</u>
GROSS PROFIT	<u>2,799</u>	<u>6</u>	<u>12</u>	<u>5</u>
OPERATING EXPENSES (Notes 4 and 14)				
Selling expenses	10,272	22	-	-
General and administrative expenses	<u>13,136</u>	<u>27</u>	<u>22,417</u>	<u>9,003</u>
Total operating expenses	<u>23,408</u>	<u>49</u>	<u>22,417</u>	<u>9,003</u>
LOSS FROM OPERATIONS	<u>(20,609)</u>	<u>(43)</u>	<u>(22,405)</u>	<u>(8,998)</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 14)				
Interest income	510	1	1,367	549
Other income	2,048	4	139	56
Other gains and losses	1,673	4	973	391
Finance costs	(472)	(1)	(791)	(318)
Share of loss of subsidiaries accounted for under equity method	<u>(174,247)</u>	<u>(363)</u>	<u>(353,849)</u>	<u>(142,108)</u>
Total non-operating income and expenses	<u>(170,488)</u>	<u>(355)</u>	<u>(352,161)</u>	<u>(141,430)</u>
LOSS BEFORE INCOME TAX	(191,097)	(398)	(374,566)	(150,428)
INCOME TAX (EXPENSE) BENEFIT (Notes 4, 5 and 15)	<u>(322)</u>	<u>-</u>	<u>5</u>	<u>2</u>
NET LOSS FOR THE YEAR	<u>(191,419)</u>	<u>(398)</u>	<u>(374,561)</u>	<u>(150,426)</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries accounted for under equity method	-	-	<u>(10,741)</u>	<u>(4,314)</u>
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income (loss) of subsidiaries accounted for under equity method	<u>2,508</u>	<u>5</u>	<u>48,494</u>	<u>19,476</u>

(Continued)



# MUTTO OPTRONICS CORPORATION

## PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2020		2019	
	Amount	%	Amount	%
Other comprehensive loss for the year, net of income tax	<u>2,508</u>	<u>5</u>	<u>37,753</u>	<u>15,162</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ (188,911)</u>	<u>(393)</u>	<u>\$ (336,808)</u>	<u>(135,264)</u>
LOSS PER SHARE (Note 16)				
Basic	<u>\$ (4.18)</u>		<u>\$ (8.18)</u>	
Diluted	<u>\$ (4.18)</u>		<u>\$ (8.18)</u>	

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

(Concluded)

# MUTTO OPTRONICS CORPORATION

## PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company						Other Equity		
	Common Stock	Capital Surplus	Legal Reserve	Retained Reserve		Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Total Equity
				Accumulated Deficit	Total				
BALANCE AT JANUARY 1, 2019	\$ 457,790	\$ 628,079	\$ 28,589	\$ (205,910)	\$ (177,321)	\$ 3,379	\$ (65,941)	\$ (62,562)	\$ 845,986
Effect of retrospective application	-	-	-	(101)	(101)	-	-	-	(101)
ADJUSTED BALANCE AT JANUARY 1, 2019	457,790	628,079	28,589	(206,011)	(177,422)	3,379	(65,941)	(62,562)	845,885
Appropriation of 2018 earnings									
Legal reserve	-	-	(28,589)	28,589	-	-	-	-	-
Capital surplus reduction to make up for deficit	-	(177,321)	-	177,321	177,321	-	-	-	-
Net loss for the year ended December 31, 2019	-	-	-	(374,561)	(374,561)	-	-	-	(374,561)
Other comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	(9,794)	47,547	37,753	37,753
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	(374,561)	(374,561)	(9,794)	47,547	37,753	(336,808)
Share-based payment	-	1,842	-	-	-	-	-	-	1,842
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	(16,560)	(16,560)	-	16,560	16,560	-
BALANCE AT DECEMBER 31, 2019	457,790	452,600	-	(391,222)	(391,222)	(6,415)	(1,834)	(8,249)	510,919
Capital surplus reduction to make up for deficit	-	(391,222)	-	391,222	391,222	-	-	-	-
Net loss for the year ended December 31, 2020	-	-	-	(191,419)	(191,419)	-	-	-	(191,419)
Other comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	3,091	(583)	2,508	2,508
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	(191,419)	(191,419)	3,091	(583)	2,508	(188,911)
Share-based payment	-	(6,200)	-	-	-	-	-	-	(6,200)
BALANCE AT DECEMBER 31, 2020	\$ 457,790	\$ 55,178	\$ -	\$ (191,419)	\$ (191,419)	\$ (3,324)	\$ (2,417)	\$ (5,741)	\$ 315,808

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

# MUTTO OPTRONICS CORPORATION

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

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ (191,097)	\$ (374,566)
Adjustments for:		
Depreciation expenses	2,865	1,300
Amortization expenses	73	189
Finance costs	472	791
Interest income	(510)	(1,367)
(Reversal of) compensation costs of share-based payments	(6,200)	1,842
Share of loss of subsidiaries accounted for under equity method	174,247	353,849
Net gain on foreign currency exchange, net	(2,794)	(1,102)
Gain on lease modification	(6)	-
Changes in operating assets and liabilities		
Accounts receivable	(37,443)	(248)
Other Receivables	171	4,676
Prepayments and other current assets	38	211
Accounts payable	45,670	236
Other payables	6,800	873
Other current liabilities	(2)	(5)
Cash used in operations	(7,716)	(13,321)
Interest received	533	1,371
Interest paid	(348)	(772)
Income tax paid	(17)	(108)
Net cash used in operating activities	<u>(7,548)</u>	<u>(12,830)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at amortized cost	-	(9,274)
Disposal of financial assets at amortized cost	53,099	-
Proceeds from capital reduction of investments accounted for under equity method	60,000	-
Decrease in refundable deposits	411	1,033
Net cash generated from (used in) investing activities	<u>113,510</u>	<u>(8,241)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) Increase in short-term loan	(49,050)	8,050
(Decrease) Increase in other payables to related parties	(35,607)	15,456
Payment of the principal portion of lease liabilities	(3,010)	(1,618)
Net cash generated from financing activities	<u>(87,667)</u>	<u>21,888</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(596)</u>	<u>(44)</u>
<b>NET INCREASE IN CASH</b>	17,699	773
<b>CASH AT THE BEGINNING OF THE YEAR</b>	3,188	2,415
<b>CASH AT THE END OF THE YEAR</b>	<u>\$ 20,887</u>	<u>\$ 3,188</u>

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

# MUTTO OPTRONICS CORPORATION

## NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

Mutto Optronics Corporation (the “Company”) was incorporated in the Republic of China (ROC) in October 2008 which originally engaged in the research and development, production and sales of touch display panels. In March 2014, the Company disposed of the full equity of Mutto Optronics Group Limited (MOGL, main business of production and sales of touch panels) and obtained 100% equity of The King Cut International Co., Ltd (King Cut), Sheaffer Manufacturing Co., Ltd. (Taiwan Sihe) and its subsidiary of Shanghai Sihe Stainless Steel Products Co., Ltd. (Shanghai Sihe) in August 2014.

In order to cooperate with the environmental comprehensive rectification plan required by the local government, Shanghai Sihe moved to Nantong Sihe Stainless Steel Products Co., Ltd. (Nantong Sihe) to continue production and operation in October 2017. It has no significant impact on the continuous operation of the Company.

The Company’s shares were listed on the Taipei Exchange (TPEX) in April 2012.

The parent company only financial statements are expressed in the Company’s functional currency, the New Taiwan Dollars.

### 2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the Company’s board of directors on March 29, 2021.

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by the IFRSs endorsed and issued into effect by the FSC did not have a significant effect on Mutto Optronics Corporation and its subsidiaries’ (collectively as the “Company”) accounting policies.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers for application starting from 2021 and the IFRSs issued by International Accounting Standards Board (IASB) and endorsed by the FSC with effective date starting 2021:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective Date Issued by IASB</b>
Amendments to IFRS 4 – Extension of the Temporary Exemption from Applying IFRS 9 Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform	Effective immediately upon promulgation by the IASB January 1, 2021
Amendments to IFRS 16, “Covid-19-related rent concessions”	June 1, 2020

As of the date the accompanying parent company only financial statements were authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the company completes the evaluation.

- c. The IFRSs issued by IASB but not yet endorsed and issued into effect by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective Date Issued by IASB(Note 1)</b>
Annual improvements to IFRS Standards 2018-2020	January 1, 2022 (Note 2)
Amendments to IFRS 3, “Reference to the conceptual framework”	January 1, 2022 (Note 3)
Amendments to IFRS 10 and IAS 28, “Sale or contribution of assets between an investor and its associate or joint venture”	To be determined by IASB
IFRS 17, “Insurance contracts”	January 1, 2023
Amendments to IFRS 17, “Insurance contracts”	January 1, 2023
Amendments to IAS 1, “Classification of liabilities as current or non-current”	January 1, 2023
Amendments to IAS 16, “Property, plant and equipment: proceeds before intended use”	January 1, 2022 (Note 4)
Amendments to IAS 37, “Onerous contracts-cost of fulfilling a contract”	January 1, 2022 (Note 5)
Amendments to IAS 1, “Disclosure of accounting policies”	January 1, 2023 (Note 6)
Amendments to IAS 8, “Definition of Accounting Estimates”	January 1, 2023 (Note 7)

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

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

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

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

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

Note 6: The amendment applies prospectively for the annual reporting period beginning on or after January 1, 2023.

Note 7: The amendment applies to changes in accounting estimates and changes in accounting policies that occur during the annual reporting period beginning on or after January 1, 2023.

As of the date the accompanying parent company only financial statements were authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the aforementioned standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

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

##### **Basis of Preparation**

The accompanying parent company only financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below.

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

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

When preparing the parent company only financial statements, the Company accounted for subsidiaries by using the equity method. In order to agree with the amount of the net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using equity method, share of profits of subsidiaries and share of other comprehensive income of subsidiaries in the parent company only financial statements.

## **Classification of Current and Noncurrent Assets and Liabilities**

Current assets include:

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

Current liabilities include:

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

Assets and liabilities that are not classified as current are classified as noncurrent.

## **Foreign Currencies**

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

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

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

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

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

## **Investments in subsidiaries**

The Company uses the equity method to account for its investments in subsidiaries. A subsidiary is an entity that is controlled by the Company.

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

of the subsidiary. The Company also recognizes the changes in the Company's share of equity of subsidiaries attributable to the Company.

When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (including any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company shall continue to recognize losses based on the shareholding percentage.

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

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

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

### **Intangible Assets**

#### **a. Intangible assets acquired separately**

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

#### **b. Derecognition of intangible assets**

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

### **Impairment of Right-of-use and Intangible Assets (Other Than Goodwill)**

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



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

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

## **Financial Instruments**

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

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

### **a. Financial assets**

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

#### **1) Measurement category**

Financial assets are classified as financial assets at amortized cost.

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

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

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

Interest revenue calculates by effective interest multiplying the book value of financial assets.

## 2) Impairment of financial assets

At each balance sheet date, the Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including account receivables and other receivables) and investments in debt instruments that are measured at FVTOCI.

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

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

For the purpose of internal credit risk management, the company determines that the following conditions represent a default in financial assets without considering the collateral held :

- a) Internal or external information indicates that the debtor is unable to pay off the debt.
- b) If there is an overdue case, unless there is reasonable and corroborable information which shows that the delayed default basis is more appropriate.

The Company recognizes an impairment loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## 3) Derecognition of financial assets

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

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

### b. Financial liabilities

#### 1) Subsequent measurement

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

#### 2) Derecognition of financial liabilities

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

## Revenue Recognition

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

### Revenue from the sale of goods

Revenue from the sale of goods comes from sales of stainless steel kitchen cutlery. Sales of stainless steel kitchen cutlery are recognized as revenue when the goods are delivered to the customer because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has primary responsibility for sales to future customers, and bears the risks of obsolescence. Accounts receivable is recognized concurrently.

## Leasing

For a contract that contains a lease component and non-lease component, the Company may elect to account for the lease and non-lease components as a single lease component.

### a. The Company as lessor

Under operating leases, Rental payment (net of any rental incentive) is recognized in profit on a straight-line basis over the term of the lease.

### b. The Company as lessee

Except for payments for low-value asset leases and short-term leases which are recognized as expenses on a straight-line basis, the Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of the lease.

Right-of-use assets are measured at cost. The cost of right-of-use assets comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus an estimate of costs needed to restore the underlying assets. Subsequent measurement is calculated as cost less accumulated depreciation and accumulated impairment loss and adjusted for changes in lease liabilities as a result of lease term modifications or other related factors. Right-of-use assets are presented separately in the parent company only balance sheets.

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

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

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

## **Borrowing Costs**

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## **Employee Benefits**

### a. Short-term employee benefits

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

### b. Retirement benefits

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

## **Share-based Payment Arrangements - Employee Share Options**

### Employee share options granted to employees

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

## **Taxation**

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

### a. Current tax

According to the Income Tax Law of R.O.C., an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

### b. Deferred tax

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

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

Deferred tax liabilities are recognized for taxable temporary differences associated with

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

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

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

c. Current tax and deferred tax for the year

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The Company has considered the economic implications of COVID-19 on critical accounting estimates and will continue evaluating the impact on its financial position and financial performance as a result of the pandemic. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation and uncertainty

#### **Taxation**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. . If the realistic profit is less than expected, it results of the possible tax reverse, which are recognized in profit or loss in the period in which they are incurred.

## 6. CASH

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash on hand	\$ 15	\$ 15
Checking accounts and demand deposits	<u>20,872</u>	<u>3,173</u>
	<u>\$ 20,887</u>	<u>\$ 3,188</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Deposits in bank	0%-0.05%	0%-0.22%

## 7. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Current</u>		
Restricted assets	<u>\$ 1</u>	<u>\$ 53,875</u>

- a. As of December 31, 2020 and 2019, annual interest rates of the restricted assets were 0.05% and 1.90%~2.15%, respectively.
- b. Refer to Note 21 for information relating to financial assets at amortized cost pledged as security.

## 8. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount	\$ 36,317	\$ 241
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 36,317</u>	<u>\$ 241</u>

The company's average credit period of sales of goods is from 30 to 120 days. No interest was charged on accounts receivables.

The company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's

different customer base and the expected credit loss rate is immensely low. As of December 31, 2020 and 2019, accounts receivables of \$36,317 and \$241 thousand were not overdue amounts.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

## 9. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY-METHOD

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Investments in subsidiaries		
Taiwan Sihe	\$ 103,551	\$ 173,646
Honest Mount Investments Limited (Honest Mount)	<u>261,854</u>	<u>423,498</u>
	<u>\$ 365,405</u>	<u>\$ 597,144</u>
	<b>Proportion of Ownership and Voting Rights</b>	
	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Taiwan Sihe	100%	100%
Honest Mount	100%	100%

Taiwan Sihe conducting refund of capital reduction whose amount is 60,000 thousand in April, 2019.

For the information on investment by indirect hold, please refer to table 4 and 5.

The investments of subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2020 and 2019 were based on the subsidiaries' financial statements audited by the auditors for the same year.

## 10. LEASE ARRANGEMENTS

### a. Right-of-use assets

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Carrying amounts</u>		
Buildings	\$ 1,672	\$ 4,537
Machinery	<u>-</u>	<u>1,089</u>
	<u>\$ 1,672</u>	<u>\$ 5,626</u>
	<b>2020</b>	<b>2019</b>
Additions to right-of-use assets	<u>\$ -</u>	<u>\$ 6,926</u>
Depreciation charge for right-of-use assets		
Buildings	\$ 2,865	\$ 1,194
Machinery	<u>-</u>	<u>106</u>
	<u>\$ 2,865</u>	<u>\$ 1,300</u>
Income from the sublease of right-of-use assets (presented in rental income)	<u>\$ 1,530</u>	<u>\$ 139</u>

Expect for recognized amortized expenses, right-of-use assets of the Company does not occur major subleasing and impairment.

b. Lease liabilities

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Carrying amounts</u>		
Current	<u>\$ 1,477</u>	<u>\$ 3,011</u>
Non-current	<u>\$ -</u>	<u>\$ 2,415</u>

Range of discount rate for lease liabilities was as follows:

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Buildings	4.756%	4.756%
Transportation	-	4.756%

c. Material lease-in activities and terms

The Company also leases buildings for the use of offices with lease terms of 2 years. The Company does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms. In addition, the Company is prohibited from subleasing or transferring all or any portion of the underlying assets without the lessor's consent.

d. Other lease information

	<b>2020</b>	<b>2019</b>
Expenses relating to short-term leases	<u>\$ 190</u>	<u>\$ 1,279</u>
Total cash outflow for leases	<u>\$ 3,200</u>	<u>\$ (3,015)</u>

The Company leases certain building and building lease which qualify as short-term leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

All lease commitments (the Company as lessee) with lease terms commencing after the balance sheet dates are as follows:

	<b>December 31, 2020</b>
Lease commitment	<u>\$ 11,382</u>



## 11. SHORT-TERM BORROWINGS

	December 31	
	2020	2019
<u>Secured borrowings</u>		
Bank loans	\$ -	\$ 49,050

The borrowing rates on bank loans were 1.31%~1.35% per annum as of December 31, 2019. Refer to Note 21 for information relating to assets pledged as collateral or for security.

## 12. RETIREMENT BENEFIT PLANS

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

## 13. EQUITY

### a. Share capital Common stocks

	December 31	
	2020	2019
Number of shares authorized (in thousands)	100,000	100,000
Shares authorized	\$ 1,000,000	\$ 1,000,000
Number of shares issued and fully paid (in thousands)	45,779	45,779
Shares issued	\$ 457,790	\$ 457,790

### b. Capital surplus

	December 31	
	2020	2019
Recognized from issuance of common stocks (1)	\$ 48,918	\$ 440,140
Employee share options (2)	6,260	12,460
	\$ 55,178	\$ 452,600

The Company's capital surplus change is the recognition of compensation costs of employee share options.

- 1) The capital surplus generated from the excess of the issuance price over the par value of capital stock may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of the Company's paid-in capital.
- 2) The capital surplus arising from the employee share options may not be used for any purpose.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the amended Articles of Incorporation, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. The distribution amount in the preceding paragraph shall not be less than 10 percent of the distributable earnings, for the policies on the distribution of employees' compensation and remuneration of directors, refer to Note 14 (f) on employees' compensation and remuneration of directors.

The dividend distribution policy of the Company shall depend on the current and future investment environment, fund demand, domestic and foreign competition situation, and capital budget, etc., and taking into the shareholders' interest, balancing dividends and the long-term financial planning of the Company. The board of directors shall submit a proposal for distribution of profits for approval at a shareholders' meeting every year. The Company's annual cash dividends are at least 10 percent of the total dividends.

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

Under Rule No. 1010012865 and issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse a special reserve.

The appropriations of earnings for 2019 and 2018 were approved in the shareholders' meetings on June 24, 2020 and June 25, 2019, respectively, were as follows:

	<u>2019</u>	<u>2018</u>
Legal reserve offset loss	\$ -	\$ 28,589
Capital reserve offset loss	391,222	177,321

**14. NET LOSS**

a. Other income

	<u>2020</u>	<u>2019</u>
Rental income	\$ 1,530	\$ 139
Others	<u>518</u>	<u>-</u>
	<u>\$ 2,048</u>	<u>\$ 139</u>

b. Other gains and losses

	<u>2020</u>	<u>2019</u>
Net foreign exchange gains	\$ 1,667	\$ 973
Gain on lease modification	<u>6</u>	<u>-</u>
	<u>\$ 1,673</u>	<u>\$ 973</u>

c. Finance costs

	<u>2020</u>	<u>2019</u>
Interest expense on bank loans	\$ 316	\$ 673
Interest on lease Liabilities	<u>156</u>	<u>118</u>
	<u>\$ 472</u>	<u>\$ 791</u>

d. Depreciation and amortization

	<u>2020</u>	<u>2019</u>
Right-of-use assets	\$ 2,865	\$ 1,300
Intangible assets	<u>73</u>	<u>189</u>
	<u>\$ 2,938</u>	<u>\$ 1,489</u>
An analysis of depreciation by function		
Operating expenses	<u>\$ 2,865</u>	<u>\$ 1,300</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 73</u>	<u>\$ 189</u>

e. Employee benefits expense

	<u>2020</u>			<u>2019</u>		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Salary	\$ -	\$ 2,453	\$ 2,453	\$ -	\$ 7,100	\$ 7,100
Labor and health insurance	-	606	606	-	675	675
Pension	-	294	294	-	234	234
Compensation to directors	-	2,410	2,410	-	5,310	5,310
Others	<u>-</u>	<u>183</u>	<u>183</u>	<u>-</u>	<u>798</u>	<u>798</u>
Total employee benefits expense	<u>\$ -</u>	<u>\$ 5,946</u>	<u>\$ 5,946</u>	<u>\$ -</u>	<u>\$ 14,117</u>	<u>\$ 14,117</u>

As of December 31, 2020 and 2019, the Company had 13 employees, within which 6 and 7 directors were not employed by the Company, respectively.

Average labor cost for the years ended December 31, 2020 and 2019 were NT\$505 thousand and NT\$1,468 thousand, respectively. Average salary for the years ended December 31, 2020 and 2019 were NT\$350 thousand and NT\$1,183 thousand, respectively. The average salary decreased by (70%) year over year.

The Company has set up an audit committee in compliance with the Securities and Exchange Act of the ROC. The audit committee is composed of all independent directors, and the committee replaces supervisors.

The Company's director's emoluments including remuneration and compensation.

Remuneration of the directors is resolved by considering degree of participation in and contribution to the Company's operations and based on the normal remuneration standard of the industry, which is proposed by Compensation Committee and approved by the Board of Directors.

Managers' remuneration is calculated by considering their expertise, obligation and the normal remuneration standard of the industry. Afterwards, salary adjustment needs to take the retained earnings of the Company, price level and the Company's policies into consideration.

f. Employees' compensation and remuneration of directors

The Company accrued employees' compensation and remuneration of directors at the rates between 1% to 10% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The Company was loss both in 2020 and in 2019, so the amount of employees' compensation and remuneration of directors was not estimated.

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

## 15. INCOME TAXES

a. Major components of tax (benefit) expense recognized in profit or loss

	<u>2020</u>	<u>2019</u>
Deferred income tax		
In respect of the current year	<u>322</u>	<u>(5)</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$ 322</u>	<u>\$ (5)</u>

A reconciliation of accounting profit and income tax (benefit) expense were as follows:

	<u>2020</u>	<u>2019</u>
Loss before tax	<u>\$ (191,097)</u>	<u>\$ (374,566)</u>
Income tax expense calculated at the statutory rate	\$ (38,219)	\$ (74,913)
Nondeductible tax expenses	3,074	33,743
Loss carryforwards	45,164	4,139
Unrecognized deductible temporary differences	<u>(9,697)</u>	<u>37,026</u>
Income tax (benefit) expense recognized in profit or loss	<u>\$ 322</u>	<u>\$ (5)</u>

- b. Unused loss carryforwards for which no deferred tax assets have been recognized in the parent company only balance sheets

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Loss carryforwards	<u>\$ 703,355</u>	<u>\$ 475,890</u>

The above is not recognized as deferred tax assets is due to the Company is not likely to have sufficient taxable income for use in the future.

- c. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2020 comprised:

<u>Unused Amount</u>	<u>Expiry Year</u>
\$ 422,026	2024
36,321	2027
2,539	2028
22,341	2029
<u>225,818</u>	2030
<u>\$ 709,045</u>	

- d. Income tax assessments

Income tax returns of the Company through 2019 have been assessed by the tax authorities.

## 16. LOSS PER SHARE

	<b>Unit:</b>	<b>NT\$ Per Share</b>
	<b>2020</b>	<b>2019</b>
Basic or diluted loss per share	<u>\$ (4.18)</u>	<u>\$ (8.18)</u>

The loss and weighted average number of common stocks outstanding in the computation of loss per share were as follows:

### Net Loss for the Year

	<b>2020</b>	<b>2019</b>
Loss used in the computation of basic or diluted loss per share	<u>\$ (191,419)</u>	<u>\$ (374,561)</u>

### Weighted Average Number of Common Stocks Outstanding (in Thousand Shares):

	<b>2020</b>	<b>2019</b>
Weighted average number of common stocks used in the computation of basic or diluted loss per share	<u>45,779</u>	<u>45,779</u>

## 17. SHARE-BASED PAYMENT ARRANGEMENTS

Qualified employees of the Company and its subsidiaries were granted 2,000 thousand options and 1,650 thousand options in August 2016, June and July 2017, respectively. (Hereinafter referred to as the “Second Share Option Plan” and “Third Share Option Plan”). Each option entitles the holder to subscribe for one ordinary share of the Company. The second share option plan and the third share option plan granted are valid for 10 years and exercisable at certain percentages after the second anniversary, third anniversary and fourth anniversary from the grant date. The second share option plan and the third share option plan were granted at exercise prices of \$14.3 and \$19.2/\$19.1 respectively, equal to the closing price of the Company’s ordinary shares listed on the Taipei Exchange on the grant date. For any subsequent changes in the Company’s common stocks, the exercise price is adjusted accordingly.

Information on employee share options was as follows:

Employee Share Option	2020		2019	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Balance at January 1	2,325	\$ 16.2	2,575	\$ 16.1
Options expired	(1,150)	18.1	(250)	15.4
Balance at December 31	<u>1,175</u>	14.4	<u>2,325</u>	16.2
Options exercisable, end of period	<u>1,119</u>	14.2	<u>1,431</u>	15.7
Weighted-average fair value of options granted (NT\$)	<u>\$ -</u>		<u>\$ -</u>	-

Information about the second outstanding options as of the reporting date was as follows:

	December 31, 2020
Range of exercise price (NT\$)	\$ 13.5
Weighted-average remaining contractual life (in years)	6.58

Information about the third outstanding options as of the reporting date was as follows:

	December 31, 2020	
	Range of Exercise Price (NT\$)	Weighted-average Remaining Contractual Life (In Years)
1,650 thousand units granted in June and July 2017	\$18.2/\$19.1	6.42/6.50

The second options granted in 2016 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	<u>Second Anniversary</u>	<u>Third Anniversary</u>	<u>Fourth Anniversary</u>
Grant-date share price (NT\$)	\$14.3	\$14.3	\$14.3
Exercise price (NT\$)	\$14.3	\$14.3	\$14.3
Expected volatility	34.73%	34.73%	34.73%
Expected life (in days)	730 days	1,095 days	1,460 days
Expected dividend yield	-	-	-
Risk-free interest rate	0.63%	0.64%	0.65%

The third options granted in 2017 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	<u>Second Anniversary</u>	<u>Third Anniversary</u>	<u>Fourth Anniversary</u>
Grant-date share price (NT\$)	\$19.2	\$19.2	\$19.2
Exercise price (NT\$)	\$19.2	\$19.2	\$19.2
Expected volatility	34.04%	34.04%	34.04%
Expected life (in days)	730 days	1,095 days	1,460 days
Expected dividend yield	-	-	-
Risk-free interest rate	0.86%	0.90%	0.93%

The Company will calculate the fair value of the employee share options by vesting period (second anniversary, third anniversary and fourth anniversary) granted in August 2016, June and July 2017, respectively.

<u>Vesting Period</u>	<u>Second Anniversary</u>	<u>Third Anniversary</u>	<u>Fourth Anniversary</u>
Fair value of the second share options (NT\$/per share)	\$4.89	\$5.09	\$5.27
Fair value of the third share options (NT\$/per share)	6.54	6.82	7.08

(Reversal of) compensation costs recognized were (\$6,200) thousand and \$1,842 thousand for the years ended December 31, 2020 and 2019, respectively.

## 18. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash) and equity of the Company (comprising issued capital, reserves, retained earnings and other equity).

The Company is not subject to other external capital requirements.

Key management personnel of the Company review the capital structure on an annually basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of dividends paid to shareholders, the number of shares repurchased, and the amount of new loan issued or existing loan redeemed.

## 19. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments that are not measured at fair value

The Company's management considers the carrying amounts recognized in the parent company only financial statements for financial assets and financial liabilities not carried at fair value to approximate their fair values.

### b. Categories of financial instruments

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
<u>Financial assets</u>		
Financial assets at amortized cost (1)	\$ 58,239	\$ 58,849
<u>Financial liabilities</u>		
At amortized cost (2)	115,038	152,789

1) The balances include financial assets at amortized cost, which comprise cash, accounts receivable, other receivables, restricted assets and refundable deposits.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payable and other payables.

### c. Financial risk management objectives and policies

The Company's major financial instruments include equity and debt investments, accounts receivable, short-term borrowings, accounts payable and lease liabilities. The Company's major financial risk management objective is to manage the financial risk associated with operating activities. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company is committed to identify, assess and avoid the uncertainty of market and reduce the market changes against the Company's financial performance potential downside effects.

The Company due to the exposure generated by the operation, mainly in the US dollar, the Company uses the foreign currency denominated related currency loans to generate natural hedging effect. The use of foreign currency loans was governed by the Company's policies approved by the board of directors. Internal auditors continue to review policy compliance.



## 1) Market risk

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

### a) Foreign currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) at the end of the reporting period are set out in Note 23.

#### Sensitivity analysis

The Company was mainly exposed to the currency USD.

The sensitivity analysis details the Company's sensitivity to a 3% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. The rate of 3% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 3% change in foreign currency rates. A 3% increase/decrease in the functional currencies against the relevant foreign currencies, the pre-tax loss for the years ended December 31, 2020 and 2019 would decrease by \$1,731 thousand and \$1,308 thousand, respectively. Impact of the above exchange rate fluctuations, these were mainly attributable to the exposure of outstanding receivables and payables, foreign currency cash, which were not hedged at the balance sheet date.

### b) Interest rate risk

The Company was exposed to interest rate risk because entities in the Company borrowed funds at both fixed and floating interest rates. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost - effective hedging strategies are applied.

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

	<b>December 31</b>	
	<b>2020</b>	<b>2019</b>
Fair value interest rate risk		
Financial assets	\$ -	\$ -
Financial liabilities	1,477	46,426
Cash flow interest rate risk		
Financial assets	20,871	57,046
Financial liabilities	-	8,050

### Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. An increase or decrease of 25 basis points (0.25%) was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax loss for the years ended December 31, 2020 and 2019 would decrease by \$52 thousand and \$122 thousand, respectively.

#### 2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk which will cause a financial loss to the Company due to the failure to discharge an obligation by the counterparties arises from the carrying amounts of the respective recognized financial assets as stated in the parent company only balance sheets.

The Company adopted a policy of dealing with creditworthy counterparties or transacting with entities that have the equivalent of an investment grade rating or above and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company also has the right to use some credit protection enhancement tools, such as requiring advance payments, to reduce the credit risks involving certain customers.

#### 3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

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

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The table included both interest and principal cash flows.

Bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2020

	<u>1-3 Months</u>	<u>3 Months to 1 Year</u>	<u>1+ Years</u>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 55,372	\$ 59,666	\$ -
Finance lease liabilities	502	1,003	-
	<u>\$ 55,874</u>	<u>\$ 60,669</u>	<u>\$ -</u>

December 31, 2019

	<u>1-3 Months</u>	<u>3 Months to 1 Year</u>	<u>1+ Years</u>
<u>Non-derivative financial liabilities</u>			
Non-interest bearing	\$ 4,805	\$ 98,934	\$ -
Finance lease liabilities	865	2,596	2,470
Variable interest rate liabilities	28	8,065	-
Fixed interest rate liabilities	41,138	-	-
	<u>\$ 46,836</u>	<u>\$ 109,595</u>	<u>\$ 2,470</u>

b) Financing facilities

	<u>December 31</u>	
	<u>2020</u>	<u>2019</u>
Secured bank overdraft facility		
Amount used	\$ -	\$ 49,050
Amount unused	-	30,950
	<u>\$ -</u>	<u>\$ 80,000</u>

## 20. TRANSACTIONS WITH RELATED PARTIES

Details of transactions between the Company and other related parties are disclosed below:

a. The Company's related parties and their relationships

<u>Related Party</u>	<u>Relationship with the Company</u>
Honest Mount	Subsidiary
King Cut	Subsidiary
Taiwan Sihe	Subsidiary
CS Solution Holding Limited Taiwan Branch (CS Solution) (Note)	Subsidiary
Nantong Sihe	Subsidiary

Note: The company decided to conduct liquidation of CS Solution Holding Limited Taiwan Branch through board resolution on December 2019, which related progress was ongoing.

b. Purchase of inventory

<u>Line Item</u>	<u>Related Party Name</u>	<u>December 31</u>	
		<u>2020</u>	<u>2019</u>
Cost of good solds	Nantong Sihe	<u>\$ 43,498</u>	<u>\$ -</u>

c. Other receivables

<u>Line Item</u>	<u>Related Party Name</u>	<u>December 31</u>	
		<u>2020</u>	<u>2019</u>
Other receivables	CS Solution	<u>\$ -</u>	<u>\$ 253</u>

d. Accounts payables

<u>Line Item</u>	<u>Related Party Name</u>	<u>December 31</u>	
		<u>2020</u>	<u>2019</u>
Accounts payables	Nantong Sihe	<u>\$ 42,410</u>	<u>\$ -</u>
Other payables		<u>\$ 56,960</u>	<u>\$ 35,976</u>
(loans from related parties)	Honest Mount Taiwan Sihe	<u>2,706</u>	<u>62,958</u>
		<u>\$ 59,666</u>	<u>\$ 98,934</u>

e. Other expenses

<u>Line Item</u>	<u>Related Party Name</u>	<u>December 31</u>	
		<u>2020</u>	<u>2019</u>
Other expenses	King Cut	<u>\$ 10,134</u>	<u>\$ -</u>

f. Compensation of key management personnel

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	\$ 7,039	\$ 9,657
Share-based payments	153	2,103
Post-employment benefits	<u>95</u>	<u>70</u>
	<u>\$ 7,287</u>	<u>\$ 11,830</u>

The compensation to the Company's key management personnel was determined according to personal performance and market trends

## 21. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for financial and investment institution borrowings:

	December 31	
	2020	2019
Restricted assets (classified as financial assets at amortized cost)	\$ <u>1</u>	\$ <u>53,875</u>

## 22. Other concerns

Due to the impact of the Covid-19 pandemic, the Company continues in evaluating the impact on its operational capability, fundraising situation, and impairment of assets affected insignificantly. As of the date the accompanying consolidated financial statements were authorized for issue. Because of uncertainty of pandemic, the Company will continue focusing on the developing of pandemic and evaluating its influence.

## 23. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2020

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 1,846	28.48 (USD:NTD)	\$ 51,719
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	3,842	28.48 (USD:NTD)	109,417

December 31, 2019

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (In Thousands)</b>
<u>Financial assets</u>			
<u>Monetary items</u>			
USD	\$ 1,846	29.98 (USD:NTD)	\$ 55,349
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD	3,300	29.98 (USD:NTD)	98,934

For the years ended December 31, 2020 and 2019, realized and unrealized net foreign exchange gains and losses were gains \$1,667 thousand and gains \$973 thousand, respectively.

#### **24. SEPARATELY DISCLOSED ITEMS**

a. Information about significant transactions:

- 1) Financing provided to others. (Table 1)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and jointly controlled entities). (Table 2)
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (None)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 9) Information about the derivative financial instruments transaction. (None)

b. Information on investees. (Table 4)

c. Information on investment in mainland China:

- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee.: Please see Table 5 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information: Please see Table 1 attached.
  - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
  - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
  - c) The amount of property transactions and the amount of the resultant gains or losses.
  - d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
  - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
  - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

d. Information of major shareholders

List all shareholders with ownership of 5% or greater showing the name of the shareholder, the number of shares owned, and percentage of ownership of each shareholder (Table 6)

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

FINANCING PROVIDED TO OTHERS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

No.	Lender	Borrower	Financial Statement Account	Related Party	Highest Balance for the Period (Note 4)	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limits	Note
													Item	Value			
1	King Cut	Honest Mount	Other receivables	Yes	\$170,880	\$170,880	\$130,011	-	Short-term financing	\$ -	Operation requirements	\$ -	-	\$ -	\$ 1,557,523	\$ 1,557,523	3
2	Taiwan Sihe	The Company	Other receivables	Yes	59,808	2,706	2,706	-	Short-term financing	-	Operation requirements	-	-	-	38,269	47,836	1 and 2
3	Honest Mount	The Company	Other receivables	Yes	85,440	85,440	56,960	-	Short-term financing	-	Operation requirements	-	-	-	7,855,630	7,855,630	3
4	Shanghai Sihe	King Cut	Other receivables	Yes	149,173	149,173	149,173	-	Short-term financing	-	Operation requirements	-	-	-	620,634	620,634	3

Note 1: The financing limit for each borrower is calculated based on the lender's 40% of the net worth of the audited financial statements on December 31, 2020.

Note 2: The aggregate financing limit is calculated based on the lender's 50% of the net worth of the audited financial statements on December 31, 2020.

Note 3: The financing limit for each borrower is calculated based on the lender's 3000% of the net worth of the audited financial statements on December 31, 2020.

Note 4: Related to foreign currencies, foreign currencies convert to New Taiwan Dollar using the conversion rate of 31 December, 2020.



## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Holding Company Name	Type and Name of Marketable Securities (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2020				Note
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
Honest Mount	<u>Stocks</u> UBER TECHNOLOGIES INC COM STK	None	Financial assets at fair value through Profit or Loss- current	20	\$ 29,599	-	\$ 29,599	-
	<u>Corporate bonds</u> VIRGIN AUSTRALIA HOLDINGS LTD	None	Financial assets at fair value through other comprehensive income - current	1,900	5,736	-	5,736	-
	VEDANTA RESOURCES PLC	None	Financial assets at fair value through other comprehensive income - current	2,000	51,008	-	51,008	Notes 2 and 4
	RKPF OVERSEAS 2019 A LTD	None	Financial assets at fair value through other comprehensive income - current	300	9,048	-	9,048	Notes 2 and 3

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instrument'.

Note 2: The order of Moody's rating is Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C in descending order to indicate the high and low within the main rating.

Note 3: The Moody's credit rating is Ba3.

Note 4: The Moody's credit rating is Caa1.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2020

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Action Taken		
King Cut	Honest Mount	Same ultimate parent company	Other receivables \$ 130,011	Note	\$ -	-	\$ -	\$ -
Shanghai Sihe	King Cut	Same ultimate parent company	Other receivables 152,561	Note	3,388	Aggressive collection	-	-

Note: The turnover rate is unavailable as the ending balance is consisted of other receivables, which is due to financing provided to others.

TABLE 4

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

## INFORMATION ON INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2020

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2020			Net Income (Loss) of the Investee	Share of Profits (Loss)	Note
				December 31, 2020 (Foreign Currencies in Thousands)	December 31, 2019 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership (%)	Carrying Amount			
The Company	Taiwan Sihe Honest Mount	Taiwan	Sales of stainless steel products	\$ 536,997	\$ 596,997	100	100	\$ 103,551	\$ (7,490)	\$(15,367)	-
		British Virgin Islands	Investment	602,678	602,678	20,000	100	261,854	(158,880)	(158,880)	-
Honest Mount	King Cut	British Virgin Islands	Sales of stainless steel products	US\$ 200	US\$ 200	5	100	51,917	12,459	12,459	-
				( 5,696)	( 5,696)						
CS Solution Holding Limited	CS Solution Holding Limited	British Virgin Islands	Hard disk repair services	277,156	275,837	9,090	100	11,514	1,002	1,002	-
				US\$ 4,316	US\$ 4,316						
CS Solution Holding Limited	CS Solutions Technology Ltd	U.S.A.	Hard disk repair services	( 122,920)	( 122,920)	216	100	12,596	(616)	(616)	-
				US\$ 172	US\$ 172						
CS Solutions Technology Ltd	Sky Tech International	U.S.A.	Hard disk repair services	( 4,899)	( 4,889)	0.1	100	-	-	-	-

Note: Refer to Table 5 for information on investments in mainland China.

## MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company	Main Businesses and Products	Paid-in Capital (US\$ in Thousands)	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020 (US\$ in Thousands)	Investment Flows for the ended December 31, 2020		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020 (US\$ in Thousands)	Net Income (Losses) of the Investee Company	Percentage of Ownership	Share of Profits/Losses (Note 3)	Carrying Amount as of December 31, 2020	Accumulated Repatriation of Investment Income as of December 31, 2020
					Outflow (US\$ in Thousands)	Inflow (US\$ in Thousands)						
Shanghai Sihe	Manufacture and sales of stainless steel products	\$ 74,333 (US\$ 2,610) (Note 6)	(Note 1)	\$ 145,533 (US\$ 5,110)	\$ -	\$ 3,532 (US\$ 124)	\$ 142,001 (US\$ 4,986)	\$ (2,276)	100	\$ (2,276)	\$ 20,668	\$ -
Nantong Sihe	Manufacture of stainless steel products	213,600 (US\$ 7,500)	(Note 2)	213,600 (US\$ 7,500)	-	-	213,600 (US\$ 7,500)	(36,738)	100	(36,738)	58,400	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2020 (US\$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$ 355,601 (US\$ 12,486)	\$ 359,133 (US\$ 12,610)	\$ 189,485 (Note 4)

Note 1: Taiwan Sihe had held 100% equity of Shanghai Sihe before the Company acquired Taiwan Sihe.

Note 2: Indirect investment in mainland China through Honest Mount, an investment company registered in a third area.

Note 3: The calculation of investment gain or loss was based on the financial statements audited by the Taiwan parent company's CPAs.

Note 4: The calculation was based on the Company's 60% of the net worth of the audited financial statements on December 31, 2020.

Note 5: Listing the amount of foreign currency in this table is based on the average exchange rate of USD\$1 to NT\$ 28.48 on December 31, 2020.

Note 6: Capital reduction in Shanghai Sihe is USD\$2,500 thousand, it already remits the amount of USD\$124 thousand of capital reduction as of December 31, 2020.

**MUTTO OPTRONICS CORPORATION AND SUBSIDIARIES**

Major shareholders information  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

Name of major shareholders	Shares	
	Number of shares held	Ownership (%)
Qiming Technologies Holding Limited	9,422,000	20.58%
李明聰	2,431,556	5.31%

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

# MUTTO OPTRONICS CORPORATION

## THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

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Item	Statement Index
Major Accounting Items in Assets, Liabilities and Equity	
Statement of cash and cash equivalents	Statement 1
Statement of changes in investments accounted for using the equity method	Statement 2
Major Accounting Items in Profit or Loss	
Statement of operating costs	Statement 3
Statement of operating expenses	Statement 4

## MUTTO OPTRONICS CORPORATION

## STATEMENT OF CASH

DECEMBER 31, 2020

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

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Demand deposits		\$ 5,550
Foreign currency deposits	US\$538 thousand.	15,320
Petty cash		15
Checking deposits		<u>2</u>
		<u>\$ 20,887</u>

Note: Exchange rate of 28.48(USD:NTD)

## MUTTO OPTRONICS CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD  
 FOR THE YEAR ENDED DECEMBER 31, 2020  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2020		Additions in Investment		Decrease in Investment		Adjustments on Investments Accounted for Using Equity Method Amount	Balance, December 31, 2020			Net Assets Value
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount		Shares (In Thousands)	%	Amount	
Honest Mount	20,000	\$ 423,498	-	\$ -	-	\$ -	(\$ 161,644)	20,000	100	\$ 261,854	\$ 261,854
Taiwan Sihe	240	<u>173,646</u>	-	<u>-</u>	(140)	( <u>60,000</u> )	( <u>10,095</u> )	100	100	<u>103,551</u>	<u>95,672</u>
		<u>\$ 597,144</u>		<u>\$ -</u>		( <u>\$ 60,000</u> )	( <u>\$ 171,739</u> )			<u>\$ 365,405</u>	<u>\$ 357,526</u>

Note 1: The calculation of net assets value was based on the audited financial statements as of December 31, 2020.

Note 2: The number stated here includes 1) share of profit or loss of subsidiaries of \$(174,247) thousand; and  
 2) share of other comprehensive income of subsidiaries of \$2,508 thousand, totally \$(171,739) thousand.



## MUTTO OPTRONICS CORPORATION

STATEMENT OF OPERATING COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2020  
(In Thousands of New Taiwan Dollars)

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Item	Amount
Inventories at beginning of year	\$ 81
Add: Purchases	45,238
Less: Inventories at end of year	<u>81</u>
Operating cost	<u>\$ 45,238</u>

## MUTTO OPTRONICS CORPORATION

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

Item	Selling Expense	General and Administrative Expense	Total
Salaries	\$ 127	\$ 5,030	\$ 5,157
Depreciation expenses	-	2,865	2,865
Professional service fees	-	2,458	2,458
Insurance expenses	-	775	775
Others (Note)	<u>10,145</u>	<u>2,008</u>	<u>12,153</u>
Total	<u>\$ 10,272</u>	<u>\$ 13,136</u>	<u>\$ 23,408</u>

Note: Each of the items was less than 5% of the total account balance.