**CATHAY CONSOLIDATED, INC.**

**FINANCIAL STATEMENTS**

**WITH REPORT OF INDEPENDENT AUDITORS**

**FOR THE YEARS ENDED**

**DECEMBER 31, 2021 AND 2020**

**Address: No.6, Dexing 4th Rd., Dongshan Township, Yilan County, Taiwan.**

**Telephone: 886-3-910-9568**

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

**Independent Auditors' Report**

To Cathay Consolidated, Inc.

**Opinion**

We have audited the accompanying individual balance sheets of Cathay Consolidated, Inc. (the "Company") as of December 31, 2021 and 2020, and the related individual statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2021 and 2020, and notes to individual financial statements, including the summary of significant accounting policies (together "the individual financial statements").

In our opinion, based on our audits, the individual financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and their financial performance and cash flows for the years ended December 31, 2021 and 2020, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Individual 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 (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, 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 2021 individual financial statements. These matters were addressed in the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Revenue recognition</u>

The Company recognized operating revenue from contracts with customers of NT$2,068,395 thousand in 2021. Operating revenue was mainly generated from sales of functional fabrics and merchandise for medical, life preserving, aviation. It's critical for financial statements audit to justify and analyze the obligation of customers contracts and the timing and completeness of revenue recognition. Therefore, we conducted revenue recognition as a key audit matter.

The audit procedures we performed regarding revenue recognition included but not limited to: understand the transaction process and performed tests of control on effectiveness of control points; inspect the terms of transaction and perform test of details to ensure obligation of customers contract and the appropriate timing and accuracy of revenue recognition; inspect the supporting document of sales transaction for a period before and after the balance sheet date to ensure revenue recognize in proper timing.

In addition, we evaluated the adequacy of disclosures of revenues. Please refer to Note 6 to the Company's individual financial statements.

Valuation of inventories

The Company mainly dedicated to manufacture and selling of functional fabrics and merchandise of medical, life preserving, aviation. As of December 31, 2021, the inventories amounted to NT$807,481 thousand, representing 34% of total assets, which was significant to individual financial statements. Due to the valuation of allowance for inventory valuation losses involved in the subjective judgement of the management, we listed valuation of inventories as a key audit matter.

The audit procedures we performed regarding valuation of inventories included but not limited to: evaluate and perform tests of control on effectiveness of control of control points for valuation of inventories; evaluate the appropriateness of the policies of writing-down of slow-moving inventories; test the accuracy of inventories aging and recalculate the losses for slow-moving inventories; perform test of supporting document and recalculate on net realizable value to ensure inventories valuated at lower of cost and net realizable value.

In addition, we evaluated the adequacy of disclosures of inventories. Please refer to Note 5 and 6 to the Company's individual financial statements.

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

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

In preparing the individual financial statements, management is responsible for assessing the ability to continue as a going concern of the Company, 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 or supervisors, are responsible for overseeing the financial reporting process of the Company.

**Auditor's Responsibilities for the Audit of the Individual Financial Statements**

Our objectives are to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 individual financial statements.

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

1. Identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual 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 auditor's 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 individual financial statements, including the accompanying notes, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 2021 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Chang, Chih-Ming

Fuh, Wen-Fun

Ernst & Young, Taiwan

February 24, 2022

**Notice to Readers**
The accompanying individual financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.
Accordingly, the accompanying individual financial statements and report of independent auditors are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

English Translation of Financial Statements Originally Issued in Chinese

**CATHAY CONSOLIDATED, INC.**
**INDIVIDUAL BALANCE SHEETS**
**December 31, 2021 and 2020**
**(Expressed in Thousands of New Taiwan Dollars)**

| | | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|---|
| ASSETS | Notes | Amount | % | Amount | % |
| Current assets | | | | | |
| Cash and cash equivalents | 4 , 6 | $252,247 | 10 | $447,593 | 23 |
| Notes receivable, net | 4，6 | 3,037 | - | 3,670 | - |
| Notes receivable from related parties | 4 , 6 , 7 | 6 | - | - | - |
| Accounts receivable, net | 4 , 6 | 359,071 | 15 | 189,957 | 10 |
| Accounts receivable from related parties | 4 , 6 , 7 | 879 | - | 9,380 | - |
| Other receivables | 4 | 18,277 | 1 | 29 | - |
| Inventories, net | 4 ,5, 6 | 807,481 | 34 | 484,212 | 25 |
| Prepayments | | 55,979 | 2 | 32,024 | 2 |
| Other current assets | 6，8 | 1,099 | - | 7,811 | - |
| Total current assets | | 1,498,076 | 62 | 1,174,676 | 60 |
| Non current assets | | | | | |
| Property, plant and equipment | 4 , 6 , 8 | 829,730 | 35 | 750,592 | 38 |
| Right-of-use assets | 4，6 | 55,918 | 2 | 30,935 | 2 |
| Intangible assets | | 800 | - | 1,093 | - |
| Deferred tax assets | 4 , 5 , 6 | 10,683 | 1 | 11,381 | - |
| Other non-current assets | 6 | 7,188 | - | 6,585 | - |
| Total non-current assets | | 904,319 | 38 | 800,586 | 40 |
| TOTAL ASSETS | | $2,402,395 | 100 | $1,975,262 | 100 |

| | | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|---|
| LIABILITIES AND EQUITY | Notes | Amount | % | Amount | % |
| Current liabilities | | | | | |
| Contract liabilities, current | 4 , 6 | $80 | - | $271 | - |
| Notes payables | 4 | 89,556 | 4 | 49,912 | 3 |
| Accounts payables | 4 | 237,015 | 10 | 104,567 | 5 |
| Accounts payables from related parties | 4，7 | - | - | 1,103 | - |
| Other payables | 4 | 103,015 | 4 | 81,567 | 4 |
| Other payables from related parties | 7 | - | - | 26 | - |
| Current tax liabilities | 4，6 | 40,321 | 2 | 32,812 | 2 |
| Provisions, current | | 2,779 | - | 2,763 | - |
| Current lease liabilities | 4 , 6 | 16,346 | 1 | 12,524 | 1 |
| Other current liabilities | | 2,667 | - | 1,432 | - |
| Current portion of long term liabilities | 4 , 6 | 32,889 | 1 | 10,133 | - |
| Total current liabilities | | 524,668 | 22 | 297,110 | 15 |
| Non-current Liabilities | | | | | |
| Long-term loans | 4 , 6 | 282,145 | 12 | 200,131 | 10 |
| Lease Liability, non current | 4 , 6 | 40,039 | 1 | 19,085 | 1 |
| Total non-current liabilities | | 322,184 | 13 | 219,216 | 11 |
| Total liabilities | | 846,852 | 35 | 516,326 | 26 |
| Equity | | | | | |
| Capital stock | | | | | |
| Common stock | 6 | 678,453 | 28 | 678,453 | 34 |
| Capital surplus | 6 | 417,366 | 18 | 417,366 | 21 |
| Retained earnings | 6 | | | | |
| Legal reserves | | 99,271 | 4 | 79,648 | 4 |
| Unappropriated earnings | | 360,453 | 15 | 283,469 | 15 |
| Total retained earnings | | 459,724 | 19 | 363,117 | 19 |
| Total Equity | | 1,555,543 | 65 | 1,458,936 | 74 |
| TOTAL LIABILITIES AND EQUITY | | $2,402,395 | 100 | $1,975,262 | 100 |

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

English Translation of Financial Statements Originally Issued in Chinese

CATHAY CONSOLIDATED, INC.

INDIVIDUAL STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| Accounts | Notes | 2021 | | 2020 | |
|---|---|---|---|---|---|
| | | Amount | % | Amount | % |
| Operating revenues | 4,5,6,7 | $2,068,395 | 100 | $1,531,351 | 100 |
| Operating costs | 6 | (1,582,583) | (77) | (1,140,848) | (75) |
| Gross profit | | 485,812 | 23 | 390,503 | 25 |
| Operating expenses | | | | | |
| Selling expenses | 6 | (40,441) | (2) | (33,438) | (2) |
| Administrative expenses | 6 | (92,931) | (4) | (75,899) | (5) |
| Research and development expenses | 6 | (37,764) | (2) | (30,396) | (2) |
| Expected credit impairment gains (losses) | 6 | 972 | - | (1,057) | - |
| Total operating expenses | | (170,164) | (8) | (140,790) | (9) |
| Net other income and expenses | | 362 | - | 55 | - |
| Operating income | | 316,010 | 15 | 249,768 | 16 |
| Non-operating income and expenses | | | | | |
| Interest income | 6 | 837 | - | 401 | - |
| Other income | 6 | 19,332 | 1 | 21,698 | 1 |
| Other gains and losses | 6 | (6,287) | - | (19,071) | (1) |
| Finance cost | 6 | (2,395) | - | (4,450) | - |
| Total non-operating income and expenses | | 11,487 | 1 | (1,422) | - |
| Income before income tax | | 327,497 | 16 | 248,346 | 16 |
| Income tax expense | 4,5,6 | (61,277) | (3) | (52,119) | (3) |
| Net income | | 266,220 | 13 | 196,227 | 13 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income | | $266,220 | 13 | $196,227 | 13 |
| | | | | | |
| Earnings per share (NTD) | | | | | |
| Earnings per share-basic | 6 | $3.92 | | $3.15 | |
| Earnings per share-diluted | 6 | $3.90 | | $3.14 | |

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

English Translation of Financial Statements Originally Issued in Chinese

**CATHAY CONSOLIDATED, INC.**

**INDIVIDUAL STATEMENTS OF CHANGES IN EQUITY**

**For the Years Ended December 31, 2021and 2020**

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

| Item | Common stock | Capital surplus | Retained earnings: Legal reserve | Retained earnings: Unappropriated earnings | Total equity |
|---|---|---|---|---|---|
| Balance as of January 1, 2020 | $594,653 | $19,904 | $61,596 | $260,207 | $936,360 |
| Appropriation and distribution of 2019 earnings: | | | | | |
| Legal reserve | - | - | 18,052 | (18,052) | - |
| Cash dividends | - | - | | (154,913) | (154,913) |
| Net income for the year ended December 31, 2020 | - | - | - | 196,227 | 196,227 |
| Other comprehensive income for the year ended December 31, 2020 | - | - | - | - | - |
| Total comprehensive income | - | - | - | 196,227 | 196,227 |
| Cash capital increase | 83,800 | 397,462 | - | - | 481,262 |
| Balance as of December 31, 2020 | 678,453 | 417,366 | 79,648 | 283,469 | 1,458,936 |
| Appropriation and distribution of 2020 earnings: | | | | | |
| Legal reserve | - | - | 19,623 | (19,623) | - |
| Cash dividends | - | - | - | (169,613) | (169,613) |
| Net income for the year ended December 31, 2021 | - | - | - | 266,220 | 266,220 |
| Other comprehensive income for the year ended December 31, 2021 | - | - | - | - | - |
| Total comprehensive income | - | - | - | 266,220 | 266,220 |
| Balance as of December 31, 2021 | $678,453 | $417,366 | $99,271 | $360,453 | $1,555,543 |

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

English Translation of Financial Statements Originally Issued in Chinese

**CATHAY CONSOLIDATED, INC.**

**INDIVIDUAL STATEMENTS OF CASH FLOWS**

**For the Years Ended December 31, 2021 and 2020**

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

| Item | 2021 | 2020 |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income tax | $327,497 | $248,346 |
| Adjustments to reconcile net income before tax to net cash provided by operating activities: | | |
| Depreciation | 78,616 | 75,662 |
| Amortization | 808 | 776 |
| Expected credit impairment (gains) losses | (972) | 1,057 |
| Interest expenses | 2,395 | 4,450 |
| Interest income | (837) | (401) |
| (Gains) losses on disposal of property, plant and equipment | (209) | 8 |
| Changes in operating assets and liabilities: | | |
| Decrease in notes receivable | 624 | 9,687 |
| (Increase) in notes receivable from related parties | (6) | - |
| (Increase) decrease in accounts receivable | (168,133) | 5,675 |
| Decrease (Increase) in accounts receivable from related parties | 8,501 | (7,143) |
| (Increase) decrease in other receivables | (18,248) | 12,964 |
| (Increase) in inventories | (323,269) | (12,213) |
| (Increase) in prepayments | (24,116) | (6,762) |
| Decrease (Increase) in other current assets | 1,016 | (1,094) |
| Decrease in other financial assets | 5,696 | 57,764 |
| Increase in notes payables | 39,644 | 7,211 |
| Increase (decrease) in accounts payables | 132,448 | (3,760) |
| (Decrease) increase in accounts payables from related parties | (1,103) | 1,103 |
| Increase (decrease) in other payable | 21,471 | (5,498) |
| (Decrease) increase in other payables from related parties | (26) | 23 |
| Increase in provisions | 16 | 547 |
| Increase (decrease) in other current liabilities | 1,044 | (5,471) |
| Cash generated from operations | 82,857 | 382,940 |
| Interest received | 837 | 401 |
| Income taxes paid | (53,068) | (56,370) |
| Net cash provided by operating activities | 30,626 | 326,971 |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (139,980) | (183,228) |
| Proceeds from disposal of property, plant and equipment | 314 | - |
| Acquisition of intangible assets | - | (770) |
| Increase in other non-current assets | (957) | (286) |
| Net cash used in investing activities | (140,623) | (184,284) |
| Cash flows from financing activities: | | |
| Increase in short-term loans | 102,820 | 493,174 |
| Decrease in short-term loans | (102,820) | (640,660) |
| Proceeds from long-term loans | 240,000 | 99,600 |
| Repayments of long-term loans | (135,230) | (15,085) |
| Payment for the principal portion of the lease liabilities | (17,849) | (16,991) |
| Cash dividends paid | (169,613) | (154,913) |
| Issuance of common stock for cash | - | 481,262 |
| Interest paid | (2,657) | (3,750) |
| Net cash (used in) provided by financing activities | (85,349) | 242,637 |
| Net (decrease) increase in cash and cash equivalents | (195,346) | 385,324 |
| Cash and cash equivalents at the beginning of the year | 447,593 | 62,269 |
| Cash and cash equivalents at the end of the year | $252,247 | $447,593 |

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

English Translation of Financial Statements Originally Issued in Chinese
CATHAY CONSOLIDATED, INC.
NOTES TO INDIVIDUAL FINANCIAL STATEMENTS
For the Year Ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars Unless Otherwise Specified)

1. History and organization

Cathay Limited ("the Company") was founded in June 1982. As of December 26, 2007, the Company changed its structure and renamed it as Cathay Consolidated, Inc., based on the agreement of all the shareholders. The Company's ordinary shares were publicly listed on the Taiwan Stock Exchange on November 24, 2020.

The Company conducts business mainly in the manufacturing of TPU film, air mattress, cover, laminated fabrics and bladder. The address of its registered office and principal place of business is No. 6, Dexing 4th Rd., Dongshan Township, Yilan County, Taiwan.

2. Date and procedures of authorization of financial statements for issue

The financial statements of the Company for the years ended December 31, 2021 and 2020 were authorized for issue by the Board of Directors on February 24, 2022.

3. Newly issued or revised standards and interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Company applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2020. The nature and impact of the new standard and amendment had no material impact on the Company.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are endorsed by FSC, but not yet adopted by the Company as of the end of the reporting period are listed below.

| Items | New, Revised or Amended Standards and Interpretations | Effective Date issued by IASB |
|---|---|---|
| A | Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements | 1 January 2022 |

A. Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements

(a) Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018. The amendments also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential “day 2” gains or losses arising for liabilities and contingent liabilities. Besides, the amendments clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Conceptual Framework.

(b) Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

(c) Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments clarify what costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.

(d) Annual Improvements to IFRS Standards 2018 - 2020

*Amendment to IFRS 1*
The amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.

*Amendment to IFRS 9 Financial Instruments*
The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

*Amendment to Illustrative Examples Accompanying IFRS 16 Leases*
The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee’s leasehold improvements.

*Amendment to IAS 41*

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2022. The standard and interpretation have no material impact on the Company.

(3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC, but not yet adopted by the Company as of the end of the reporting period are listed below.

| Items | New, Revised or Amended Standards and Interpretations | Effective Date issued by IASB |
|---|---|---|
| A | IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures | To be determined by IASB |
| B | IFRS 17 "Insurance Contracts" | January 1, 2023 |
| C | Classification of Liabilities as Current or Non-current – Amendments to IAS 1 | January 1, 2023 |
| D | Disclosure Initiative - Accounting Policies – Amendments to IAS 1 | 1 January 2023 |
| E | Definition of Accounting Estimates – Amendments to IAS 8 | 1 January 2023 |
| F | Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 | 1 January 2023 |

A. IFRS 10"Consolidated Financial Statements" and IAS 28"Investments in Associates and Joint Ventures" — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

B. IFRS 17 "Insurance Contracts"

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The carrying amount of a company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

IFRS 17 was issued in May 2017 and it was amended in 2020 and 2021. The amendments include deferral of the date of initial application of IFRS 17 by two years to annual beginning on or after January 1, 2023 (from the original effective date of January 1, 2021); provide additional transition reliefs; simplify some requirements to reduce the costs of applying IFRS 17 and revise some requirements to make the results easier to explain. IFRS 17 replaces an interim Standard – IFRS 4 Insurance Contracts – from annual reporting periods beginning on or after January 1, 2023.

C. Classification of Liabilities as Current or Non-current – Amendments to IAS 1

These are the amendments to paragraphs 69-76 of IAS 1 Presentation of Financial statements and the amended paragraphs related to the classification of liabilities as current or non-current.

D. Disclosure Initiative - Accounting Policies – Amendments to IAS 1

The amendments improve accounting policy disclosures that to provide more useful information to investors and other primary users of the financial statements.

E. Definition of Accounting Estimates – Amendments to IAS 8

The amendments introduce the definition of accounting estimates and included other amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to help companies distinguish changes in accounting estimates from changes in accounting policies.

F. Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The new or amended standards and interpretation have no material impact on the Company.

4. Summary of significant accounting policies

(1) Statement of Compliance

The individual financial statements of the Company for the years ended December 31, 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

(2) Basis of Preparation

Except for the financial instruments which are recognized at fair value, the financial statements have been prepared on a historical cost basis. The financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3) Foreign Currency Transactions

The Company's financial statements are presented in NT$.

Transactions in foreign currencies are initially recorded by the Company at respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

B. Foreign currency items within the scope of IFRS 9 Financial Instruments are accounted for based on the accounting policy for financial instruments.

C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(4) Current and Non-Current Distinction

An asset is classified as current when:

(a) The Company expects to realize the asset, or intends to sell or consume it, in its normal operating cycle.
(b) The Company holds the asset primarily for the purpose of trading.
(c) The Company expects to realize the asset within twelve months after the reporting period.
(d) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current assets.

A liability is classified as current when:

(a) The Company expects to settle the liability in its normal operating cycle.
(b) The Company holds the liability primarily for the purpose of trading.
(c) The liability is due to be settled within twelve months after the reporting period.
(d) The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current liability.

(5) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 12 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(6) Financial Instruments

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

Financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments* are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial instruments: Recognition and Measurement

The Company accounts for regular way purchase or sales of financial assets on the trade date.

The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, considering both factors below:

(a) the Company's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

*Financial assets measured at amortized cost*

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, account receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as of the reporting date:

(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.

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the Company applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Company applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

B. Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial asset measured at amortized cost.

The Company measures expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measured as follow:

(a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Company measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.

(b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.

(c) For account receivables or contract assets arising from transactions within the scope of IFRS 15, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

(d) For lease receivables arising from transactions within the scope of IFRS 16, the Company measures the loss allowance at an amount equal to lifetime expected credit losses.

At each reporting date, the Company needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

C. Derecognition of financial assets

A financial asset is derecognized when:

(a) The rights to receive cash flows from the asset have expired

(b) The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred.

(c) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity

<u>Classification between liabilities or equity</u>

The Company classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

<u>Equity instruments</u>

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

<u>Financial liabilities</u>

Financial liabilities within the scope of IFRS 9 *Financial Instruments* are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(7) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

A. In the principal market for the asset or liability, or
B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(8) Inventories

Inventories are valued at lower of cost and net realizable value item by item.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Raw materials – Purchase cost on weighted average cost basis

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Rendering of services is accounted in accordance with IFRS 15 and not within the scope of inventories.

(9) Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognized such parts as individual assets with specific useful lives and depreciation, respectively. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of IAS 16 *Property, plant and equipment*. When a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated economic lives of the following assets:

| | |
|---|---|
| Buildings | 20~50 years |
| Machinery and equipment | 6~10 years |
| Transportation equipment | 5 years |
| Office equipment | 3~10 years |
| Leasehold improvements | The shorter of lease terms or economic useful lives |

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(10) Leases

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

(a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) the right to direct the use of the identified asset.

For a contract that is, or contains, a lease, the Company accounts for each lease component within the contract as a lease separately from non-lease components of the contract. For a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge the Company for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Company estimates the stand-alone price, maximising the use of observable information.

Company as a lessee

Except for leases that meet and elect short-term leases or leases of low-value assets, the Company recognizes right-of-use asset and lease liability for all leases which the Company is the lessee of those lease contracts.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date;
(c) amounts expected to be payable by the lessee under residual value guarantees;
(d) the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Company measures the lease liability on an amortized cost basis, which increases the carrying amount to reflect interest on the lease liability by using an effective interest method; and reduces the carrying amount to reflect the lease payments made.

At the commencement date, the Company measures the right-of-use asset at cost. The cost of the right-of-use asset comprises:

(a) the amount of the initial measurement of the lease liability;
(b) any lease payments made at or before the commencement date, less any lease incentives received;
(c) any initial direct costs incurred by the lessee; and
(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

For subsequent measurement of the right-of-use asset, the Company measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses. That is, the Company measures the right-of-use applying a cost model.

If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company applies IAS 36 "Impairment of Assets" to determine whether the right-of-use asset is impaired and to account for any impairment loss identified.

Except for those leases that the Company accounted for as short-term leases or leases of low-value assets, the Company presents right-of-use assets and lease liabilities in the balance sheet and separately presents lease-related interest expense and depreciation charge in the statements of comprehensive income.

For short-term leases or leases of low-value assets, the Company elects to recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

(11) Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 *Impairment of Assets* may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(12) Revenue recognition

The Company's revenue arising from contracts with customers are primarily related to sale of goods. The accounting policies are explained as follow:

Sale of goods

The Company manufactures and sells goods. Sales are recognized when control of the goods is transferred to the customer (meaning that the customer has control over the use of the product and claims almost all of the remaining benefit) and the goods are delivered to the customers. The main product of the Company is TPU film, air mattress, cover, laminated fabrics and bladder and revenue is recognized based on the consideration stated in the contract. For certain sales of goods transactions, they are usually accompanied by volume discounts (based on the accumulated total sales amount for a specified period). Therefore, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. To the Company estimates the discounts using the expected value method based on historical experiences. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved. During the period specified in the contract, refund liability is recognized for the products expected volume discounts.

The Company has not provided any warranty to its products.

The credit period of the Company's sale of goods is received before transport or in 60 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as account receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract. For some of the contracts, the Company has transferred the goods to customers but does not has a right to an amount of consideration that is unconditional, these contacts should be presented as contract assets. Besides, in accordance with IFRS 9, the Company measures the loss allowance for a contract asset at an amount equal to the lifetime expected credit losses. Some of contracts signed and The Company receives partial payments while the obligation hasn't fulfilled, therefore the Company recognize as contract liabilities.

(13) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.  Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(14) Post-employment benefits

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due.

(15) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the Shareholders' meeting.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities 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. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

5. Significant accounting judgements, estimates and assumptions

The preparation of the Company's individual financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Revenue recognition – sales returns and allowance

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

(2) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(3) Accounts receivables – estimation of impairment loss

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise.

(4) Inventories

Estimates of net realizable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made. Please refer to Note 6 for more details.

6. Contents of significant accounts

(1) Cash and cash equivalents

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Cash on hand | $884 | $968 |
| Demand deposits | 164,363 | 386,988 |
| Time deposits | 87,000 | 59,637 |
| Total | $252,247 | $447,593 |

Cash and cash equivalents were not pledged as collateral or restricted for uses.

(2) Notes receivable and notes receivable – related parties

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Notes receivable arising from operating activities | $3,053 | $3,677 |
| Notes receivable arising from non-operating activities | - | - |
| Less: loss allowance | (16) | (7) |
| Subtotal | 3,037 | 3,670 |
| Notes receivable from related parties | 6 | - |
| Less: loss allowance | - | - |
| Subtotal | 6 | - |
| Total | $3,043 | $3,670 |

Notes receivable was not pledged.

The Company follows the requirement of IFRS 9 to assess the impairment. Please refer to Note 6.12 for more details on loss allowance and Note 12 for details on credit risk.

(3) Accounts receivable and accounts receivable – relate parties

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Accounts receivable | $360,400 | $192,267 |
| Less: loss allowance | (1,329) | (2,310) |
| Subtotal | 359,071 | 189,957 |
| Accounts receivable – related parties | 879 | 9,380 |
| Less: loss allowance | - | - |
| Subtotal | 879 | 9,380 |
| Total | $359,950 | $199,337 |

Accounts receivable was not pledged.

Accounts receivable is generally received before shipping or in 60 days. The total carrying amount as of December 31, 2021 and 2020 are NT$361,279 thousand and NT$201,647 thousand, respectively. Please refer to Note 6.12 for more details on loss allowance of account receivables for the year ended December 31, 2021 and 2020. Please refer to Note 12 for more details on credit risk management.

(4) Inventories

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Raw materials | $382,965 | $194,384 |
| Work in progress | 183,474 | 109,836 |
| Finished goods | 239,001 | 179,415 |
| Merchandise | 1,580 | 330 |
| Inventories in transit | 461 | 247 |
| Total | $807,481 | $484,212 |

The cost of inventories recognized in operating costs amounts to NT$1,582,583 thousand and NT$1,140,848 thousand for the year ended December 31, 2021 and 2020, including gain from price recovery of inventory of NT$1,361 thousand and the write-down of inventories of NT$23,773 thousand.

During the year ended December 31, 2021, the Company disposed and sold parts of slow-moving inventories, resulting in the gain from price recovery of inventory.

Inventories were no pledged.

(5) Other current assets

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Other financial assets－current | $- | $5,696 |
| Other | 1,099 | 2,115 |
| Total | $1,099 | $7,811 |

(6) Property, plant and equipment

Property, plant and equipment were all owned by the Company with no under operating lease, information of property, plant and equipment as following:

| | Land | Buildings | Machinery and equipment | Office equipment | Transportation equipment | Mold equipment | Leasehold improvements | Construction in progress and equipment awaiting examination | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | |
| 2021.1.1 | $202,124 | $203,428 | $520,773 | $38,268 | $2,779 | $42,752 | $11,096 | $183,881 | $1,205,101 |
| Additions | - | 3,267 | 5,626 | 2,069 | 86 | 5,932 | 663 | 122,337 | 139,980 |
| Disposals | - | - | (2,962) | (896) | - | (253) | - | - | (4,111) |
| Transfers | - | 222,086 | 29,948 | 2,368 | - | - | - | (254,402) | - |
| Other changes | - | - | - | - | - | - | - | 1,017 | 1,017 |
| 2021.12.31 | $202,124 | $428,781 | $553,385 | $41,809 | $2,865 | $48,431 | $11,759 | $52,833 | $1,341,987 |
| | | | | | | | | | |
| 2020.1.1 | $202,124 | $203,428 | $499,117 | $38,374 | $2,349 | $36,056 | $10,071 | $32,980 | $1,024,499 |
| Additions | - | - | 4,363 | 590 | 430 | 6,293 | 1,025 | 170,527 | 183,228 |
| Disposals | - | - | (2,054) | (702) | - | (29) | - | - | (2,785) |
| Transfers | - | - | 19,347 | 6 | - | 432 | - | (19,785) | - |
| Other changes | - | - | - | - | - | - | - | 159 | 159 |
| 2020.12.31 | $202,124 | $203,428 | $520,773 | $38,268 | $2,779 | $42,752 | $11,096 | $183,881 | $1,205,101 |
| | | | | | | | | | |
| Accumulated Depreciation: | | | | | | | | | |
| 2021.1.1 | $- | $57,313 | $323,077 | $32,767 | $2,104 | $31,577 | $7,671 | $- | $454,509 |
| Depreciation | - | 11,050 | 39,577 | 2,402 | 285 | 6,936 | 1,504 | - | 61,754 |
| Disposals | - | - | (2,919) | (834) | - | (253) | - | - | (4,006) |
| 2021.12.31 | $- | $68,363 | $359,735 | $34,335 | $2,389 | $38,260 | $9,175 | $- | $512,257 |
| | | | | | | | | | |
| 2020.1.1 | $- | $48,751 | $286,844 | $30,527 | $1,774 | $23,314 | $6,334 | $- | $397,544 |
| Depreciation | - | 8,562 | 38,280 | 2,941 | 330 | 8,292 | 1,337 | - | 59,742 |
| Disposals | - | - | (2,047) | (701) | - | (29) | - | - | (2,777) |
| 2020.12.31 | $- | $57,313 | $323,077 | $32,767 | $2,104 | $31,577 | $7,671 | $- | $454,509 |
| | | | | | | | | | |
| Net carrying amount as of: | | | | | | | | | |
| 2021.12.31 | $202,124 | $360,418 | $193,650 | $7,474 | $476 | $10,171 | $2,584 | $52,833 | $829,730 |
| 2020.12.31 | $202,124 | $146,115 | $197,696 | $5,501 | $675 | $11,175 | $3,425 | $183,881 | $750,592 |

Capitalized borrowing costs and rate of property, plant and equipment, construction in progress and equipment awaiting examination are as follows:

| Item | For the years ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Construction in progress and equipment awaiting examination | $1,017 | $159 |
| Capitalization rate of borrowing costs | 0.60%~1.18% | 0.95%~1.59% |

Please refer to Note 8 for more details on property, plant and equipment under pledge.

(7) Other non-current assets

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Refundable deposits | $4,507 | $4,404 |
| Cash surrender value of life insurance | 1,827 | 1,827 |
| Other non-current assets - other | 854 | 354 |
| Total | $7,188 | $6,585 |

(8) Long-term loans

Details of long-term loans are as follows:

| Lenders | 2021.12.31 | Interest Rate (%) | Maturity date and terms of repayment |
|---|---|---|---|
| Chang Hwa Commercial Bank | $112,834 | 1.1% | Original repayable monthly from 2019.2.11 to 2022.12.11. Since October 12, 2021, changed the term of borrowing to repayable monthly from 2021.10.22 to 2036.10.21 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 61,714 | 0.6% | Repayable monthly from 2020.7.13 to 2030.6.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 4,581 | 0.6% | Repayable monthly from 2020.8.7 to 2030.6.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 13,304 | 0.6% | Repayable monthly from 2020.11.18 to 2030.6.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 6,532 | 0.6% | Repayable monthly from 2020.12.8 to 2030.6.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 64,909 | 0.6% | Repayable monthly from 2021.4.29 to 2030.6.15 and interest is paid monthly |
| Chang Hwa Commercial Bank | 36,190 | 0.6% | Repayable monthly from 2021.4.29 to 2028.4.15 and interest is paid monthly |
| Chang Hwa Commercial Bank | 9,048 | 0.6% | Repayable monthly from 2021.4.29 to 2028.4.15 and interest is paid monthly |
| Chang Hwa Commercial Bank | 5,922 | 0.6% | Repayable monthly from 2021.11.12 to 2028.4.15 and interest is paid monthly |
| Subtotal | 315,034 | | |
| Less: current portion | (32,889) | | |
| Total | $282,145 | | |

| Lenders | 2020.12.31 | Interest Rate (%) | Maturity date and terms of repayment |
|---|---|---|---|
| Chang Hwa Commercial Bank | $114,000 | 1.3% | Effective from 2019.2.11 to 2022.2.11, interest is paid monthly and repayment due. |
| Chang Hwa Commercial Bank | 68,975 | 0.6% | Repayable monthly from 2020.7.13 to 2030.7.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 5,120 | 0.6% | Repayable monthly from 2020.8.7 to 2030.6.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 14,869 | 0.6% | Repayable monthly from 2020.11.18 to 2030.6.15 and interest is paid monthly. |
| Chang Hwa Commercial Bank | 7,300 | 0.6% | Repayable monthly from 2020.12.8 to 2030.6.15 and interest is paid monthly. |
| Subtotal | 210,264 | | |
| Less: current portion | (10,133) | | |
| Total | $200,131 | | |

The chairman of the Company was association guarantor of partial borrowings above as of December 31, 2021 and 2020.

Certain long-term loans, please refer to Note 8 for more details.

(9) Post-employment benefits

Defined contribution plan

The Company's employee retirement regulations set out in accordance with the Labor Pension regulations are defined contribution plans. According to the regulations, the monthly pension provision rate of the Company cannot be less than 6% of the employee's monthly wages. The Company has established employee retirement regulations in accordance with the regulation and provide cash contribution at the rate of 6% of the employee's monthly wages to the Labor Pension personal account of the Bureau of the Labor Insurance.

Expenses under the defined contribution plan for the years ended December 31, 2021 and 2020 are NT$6,901 thousand and NT$6,302 thousand, respectively.

(10) Equity

A. Common stock

The Company's authorized capital was both NT$900,000 thousand and both 90,000 thousand shares at NT$10 par value as of December 31, 2021, and 2020, respectively. The Company's issued capital was both NT$678,453 thousand and both 67,845 thousand shares at NT$10 par value as of December 31, 2021 and 2020, respectively. Each share has one voting right and a right to receive dividends.

B. Capital surplus

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Additional paid-in capital | $417,366 | $417,366 |

According to the Company Act, the capital reserve shall not be used except for making good the deficit of the company. When a company incurs no loss, it may distribute the capital reserves related to the income derived from the issuance of new shares at a premium or income from endowments received by the company. The distribution could be made in cash or in the form of dividend shares to its shareholders in proportion to the number of shares being held by each of them.

C. Retained earnings and dividend policies

According to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

a. Payment of all taxes and dues;
b. Offset prior years' operation losses;
c. Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve;
d. Set aside or reverse special reserve in accordance with law and regulations; and
e. The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future investment environment, fund requirements, domestic and international competition and capital budgets; as well as the interest of the shareholders, share bonus equilibrium and long-term financial planning etc. The Board of Directors shall make the distribution proposal annually and present it at the shareholders' meeting.

According to the Company Act, the Company needs to set aside amount to legal reserve unless where such legal reserve amounts to the total authorized capital. The legal reserve can be used to make good the deficit of the Company. When the Company incurs no loss, it may distribute the portion of legal serve which exceeds 25% of the paid-in capital by issuing new shares or by cash in proportion to the number of shares being held by each of the shareholders.

The appropriation of earning for 2020 was approved by the stockholder's meeting held on May 18, 2022, while the appropriation of earning for 2021 was approved by the Board of Director's meeting on February 24, 2022. The detail of distribution are as follows:

| | Appropriation of earnings | | Cash dividend per share (NT$) | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Legal reserve | $26,622 | $19,623 | $- | $- |
| Cash dividend | 203,536 | 169,613 | 3.0 | 2.5 |

Please refer to Note 6.14 for details on employees' compensation and remuneration to directors and supervisors.

(11) Operating revenue

| | For the year ended December 31 | |
|---|---|---|
| Revenue from contracts with customers | 2021 | 2020 |
| Sale of goods | $2,068,395 | $1,531,351 |

Analysis of revenue from contracts with customers during the years ended December 31, 2021 and 2020 are as follows:

A. Disaggregation of revenue

For the year ended December 31, 2021:

| | Individual Dept |
|---|---|
| Sale of goods | $2,068,395 |
| | |
| Timing of revenue recognition: | |
| At a point in time | $2,068,395 |

For the year ended December 31, 2020:

| | Individual Dept |
|---|---|
| Sale of goods | $1,531,351 |
| | |
| Timing of revenue recognition: | |
| At a point in time | $1,531,351 |

B. Contract balances

Contract liabilities － current

| | 2021.12.31 | 2020.12.31 | 2020.1.1 |
|---|---|---|---|
| Sales of goods | $80 | $271 | $2,456 |

The significant changes in the Company's balances of contract liabilities for the years ended December 31, 2021 and 2020 are as follows:

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| The opening balance transferred to revenue | $256 | $2,042 |
| Increase in receipts in advance during the year (excluding the amount incurred and transferred to revenue during the year) | 65 | 266 |

C. Transaction price allocated to unsatisfied performance obligations

The aggregate amount of the transaction price allocated to unsatisfied performance obligations is not significant as of December 31, 2021 and 2020.

D. Assets recognized from costs to fulfil a contract

None

(12) Expected credit losses/ (gains)

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Operating expenses – Expected credit losses/(gains) | | |
| Trade receivables | $(972) | $1,057 |

Please refer to Note 12 for more details on credit risk.

The Company measures the loss allowance of trade receivables (including note receivables and account receivables) at an amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance is as follow:

The Company considered as a single group of account receivables considering past experience and by industry sector and its loss allowance is measured by using a provision matrix, details are as follow:

As of December 31, 2021

| | Not yet due | Overdue | | | | |
|---|---|---|---|---|---|---|
| | (note) | <=120 days | 121-180 days | 181-365days | >=365 days | Total |
| Gross carrying amount | $306,751 | $57,585 | $- | $- | $2 | $364,338 |
| Loss rate | 0.34% | 0.52% | - | - | 100% | |
| Lifetime expected credit losses | 1,042 | 301 | - | - | 2 | 1,345 |
| Carrying amount of account receivables | | | | | | $362,993 |

As of December 31, 2020

| | Not yet due | Overdue | | | | |
|---|---|---|---|---|---|---|
| | (note) | <=120 days | 121-180 days | 181-365days | >=365 days | Total |
| Gross carrying amount | $161,733 | $40,264 | $1,285 | $889 | $1,152 | $205,323 |
| Loss rate | 0.58% | 1.08% | 40.38% | 39.34% | 100% | |
| Lifetime expected credit losses | 938 | 434 | 519 | 350 | 76 | 2,317 |
| Carrying amount of account receivables | | | | | | $203,006 |

Note: The Company’s note receivables are not overdue.

The movement in the provision for impairment of note receivables and account receivables during the years ended December 31, 2021 and 2020 are as follows:

| | Notes receivable and accounts receivables |
|---|---|
| 2021.1.1 | $2,317 |
| Addition/(reversal) for the current period | (972) |
| Write off | - |
| 2021.12.31 | $1,345 |
| 2020.1.1 | $1,260 |
| Addition/(reversal) for the current period | 1,057 |
| Write off | - |
| 2020.12.31 | $2,317 |

(13) Leases

A. Company as a lessee

The Company leases various properties, including real estate such as buildings and transportation equipment. The lease terms range from 2 to 11 years. There are no restrictions placed upon the Company by entering into these leases.

The Company's leases effect on the financial position, financial performance and cash flows are as follows:

(a) Amounts recognized in the balance sheet

a. Right-of-use assets

The carrying amount of right-of-use assets

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Buildings | $49,295 | $16,667 |
| Transportation equipment | 6,623 | 14,268 |
| Total | $55,918 | $30,935 |

During the years ended December 31, 2021 and 2020, the Company's additions to right-of-use assets amounting to NT$40,785 thousand and NT$21,028 thousand.

b. Lease liabilities

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Lease liabilities | $56,385 | $31,609 |
| Current | $16,346 | $12,524 |
| Non-current | $40,039 | $19,085 |

Please refer to Note 6 (15)(d) for the interest on lease liabilities recognized during the year ended December 31, 2021 and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities.

(b) Amounts recognized in the statement of profit or loss

Depreciation charge for right-of-use assets

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Buildings | $12,972 | $12,543 |
| Transportation equipment | 3,890 | 3,377 |
| Total | $16,862 | $15,920 |

(c) Income and costs relating to leasing activities

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| The expenses relating to short-term leases | $700 | $621 |
| The expenses relating to leases of low-value assets (Not including the expenses relating to short-term leases of low-value assets) | 144 | 132 |

(d) Cash outflow relating to leasing activities

During the year ended December 31, 2021 and 2020, the Company's total cash outflows for leases amounting to NT$18,693 thousand and NT$17,688 thousand, respectively.

(e) Other information relating to leasing activities

None.

(14) Summary statement of employee benefits, depreciation and amortization expenses by function during the years ended December 31, 2021 and 2020:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Operating costs | Operating expenses | Total amount | Operating costs | Operating expenses | Total amount |
| Employee benefits expense | | | | | | |
| Salaries | $164,916 | $72,641 | $237,557 | $134,693 | $59,970 | $194,663 |
| Labor and health insurance | 11,469 | 4,361 | 15,830 | 9,809 | 3,080 | 12,889 |
| Pension | 5,270 | 1,631 | 6,901 | 4,809 | 1,493 | 6,302 |
| Directors' remuneration | - | 8,997 | 8,997 | - | 6,712 | 6,712 |
| Other employee benefits expense | 7,629 | 808 | 8,437 | 5,016 | 764 | 5,780 |
| Depreciation | 70,000 | 8,616 | 78,616 | 68,670 | 6,992 | 75,662 |
| Amortization | 477 | 331 | 808 | 534 | 242 | 776 |

Note: As of December 31, 2021 and 2020, the Company had 337 and 289 employees, including both 6 non-employee directors.

According to the Articles of Incorporation, 1% of profit of the current year is distributable as employees' compensation and no higher than 5% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit of the year ended December 31, 2021, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2021 to be 6.5% and 2.5% of profit of the current year (or NT$23,393 thousand and NT$8,997 thousand), recognized as employee benefits expense. Based on the profit of the year ended December 31, 2020, the Company estimated the amounts of the employees' compensation and remuneration to directors and supervisors for the year ended December 31, 2020 to be 5% and 2.5% of profit of the current year (or NT$13,424 thousand and NT$6,712 thousand), recognized as employee benefits expense. Differences between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year will be recognized in profit or loss of the subsequent year.

A resolution was passed at a Board of Directors meeting held on February 23, 2021 to distribute NT$13,424 thousand in the cash as employees' compensation and distribute NT$6,712 thousand as remuneration to directors and supervisors. No material differences exist between the resolution and the estimated amount.

No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended December 31, 2020.

(15) Non-operating income and expenses

A. Interest income

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Interest income | | |
| Financial assets measured at amortized cost | $837 | $401 |

B. Other income

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Product development subsidy income | $19,128 | $21,698 |
| Rental income | 204 | - |
| Total | $19,332 | $21,698 |

C. Other gains and losses

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Gains (Losses) on disposal of property, plant and equipment | $209 | $(8) |
| Foreign exchange (losses), net | (5,202) | (19,063) |
| Other losses | (1,294) | - |
| Total | $(6,287) | $(19,071) |

D. Finance costs

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Interest on borrowings from bank | $(1,617) | $(3,660) |
| Interest on lease liabilities | (778) | (790) |
| Total | $(2,395) | $(4,450) |

(16) Income tax

The major components of income tax expense (income) for the years ended December 31, 2021 and 2020 are as follows:

Income tax expense recognized in profit or loss

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Current income tax expense (income): | | |
| Current income tax charge | $66,714 | $54,798 |
| Adjustments in respect of current income tax of prior periods | (6,135) | 2,061 |
| Deferred tax expense (income): | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | (1,210) | (4,740) |
| Deferred tax expense arising from write-down of deferred tax asset | 1,908 | - |
| Total income tax expense | $61,277 | $52,119 |

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Accounting profit before tax from continuing operations | $327,497 | $248,346 |
| Tax at the domestic rates applicable to profits in the country concerned | $65,499 | $49,669 |
| Tax effect of not deductible for tax purposes | 5 | 11 |
| Corporate income surtax on undistributed retained earnings | - | 378 |
| Tax effect of deferred tax asset | 1,908 | - |
| Adjustments in respect of current income tax of prior periods | (6,135) | 2,061 |
| Total income tax expense recognized in profit or loss | $61,277 | $52,119 |

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2021

| | Beginning balance as of January 1, 2021 | Deferred tax income (expense) recognized in profit or loss | Ending balance as of December 31, 2021 |
|---|---|---|---|
| Temporary differences | | | |
| Short-term employee benefit | $553 | $3 | $556 |
| Unrealized exchange losses (gains) | 1,618 | (837) | 781 |
| Valuation of inventory | 8,294 | (272) | 8,022 |
| Other | 916 | 408 | 1,324 |
| Deferred tax (expense) / income | | $(698) | |
| Net deferred tax assets/(liabilities) | $11,381 | | $10,683 |
| Reflected in balance sheet as follows: | | | |
| Deferred tax assets | $11,381 | | $10,683 |
| Deferred tax liabilities | $- | | $- |

For the year ended December 31, 2020

| | Beginning balance as of January 1, 2020 | Deferred tax income (expense) recognized in profit or loss | Ending balance as of December 31, 2020 |
|---|---|---|---|
| Temporary differences | | | |
| Short-term employee benefit | $443 | $110 | $553 |
| Unrealized exchange losses (gains) | 751 | 867 | 1,618 |
| Valuation of inventory | 3,539 | 4,755 | 8,294 |
| Other | 1,908 | (992) | 916 |
| Deferred tax (expense) / income | | $4,740 | |
| Net deferred tax assets/(liabilities) | $6,641 | | $11,381 |
| Reflected in balance sheet as follows: | | | |
| Deferred tax assets | $6,641 | | $11,381 |
| Deferred tax liabilities | $- | | $- |

Unrecognized deferred tax assets

There were no unrecognized deferred tax assets as of December 31, 2021 and 2020.

The assessment of income tax returns

The Company’s income tax returns for the years up to 2019 have been approved by the Tax Authority.

(17) Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| (a) Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand NT$) | $266,220 | $196,227 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 67,845 | 62,367 |
| Basic earnings per share (NT$) | $3.92 | $3.15 |
| (b) Diluted earnings per share | | |
| Profit attributable to ordinary equity holders of the Company (in thousand NT$) | $266,220 | $196,227 |
| Weighted average number of ordinary shares outstanding for basic earnings per share (in thousands) | 67,845 | 62,367 |
| Effect of dilution: | | |
| Employee compensation－stock (in thousands) | 344 | 204 |
| Weighted average number of ordinary shares outstanding after dilution (in thousands) | 68,189 | 62,571 |
| Diluted earnings per share (NT$) | $3.90 | $3.14 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

7. Related party transactions

Information of the related parties that had transactions with the Company during the financial reporting period is as follows:

(1) Name and nature of relationship of the related parties

| Name of the related parties | Nature of relationship of the related parties |
|---|---|
| Caremed Supply Inc. | Other related party |
| Bemis Taiwan Ltd. | Other related party |
| Bemis Associates Inc. | Other related party |
| Bemis Hong Kong Ltd. | Other related party |
| Ding-Cheng Investment Inc. | Other related party |
| Hong Xi Investment Inc. | Other related party |
| Shun Jin Film Manufacture Co., Ltd. | Other related party |

(2) Significant transactions with related parties

(a) Sales

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Other related party | | |
| Caremed Supply Inc. | $2,104 | $1,569 |
| Bemis Taiwan Ltd. | 5,482 | 584 |
| Bemis Associates Inc. | 123 | - |
| Bemis Hong Kong Ltd. | 26,392 | 17,488 |
| Shun Jin Film Manufacture Co., Ltd. | 24,142 | - |
| Total | $58,243 | $19,641 |

The sales price to the above related parties was determined through mutual agreement based on the market rates. The collection period for sales to related parties is similar with third party. The outstanding balance on December 31, 2021 and 2020 was unsecured, non-interest bearing and must be settled in cash.

(b) Purchase

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Other related party | | |
| Caremed Supply Inc. | $26 | $97 |
| Bemis Associates Inc. | - | 1,041 |
| Bemis Hong Kong Ltd. | 233 | 466 |
| Total | $259 | $1,604 |

The purchase price to the above related parties was determined through mutual agreement based on the market rate. The payment terms from the related party suppliers are comparable with third party suppliers and are between 30~60 days.

(c) Notes receivable – related parties

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Other related party | | |
| Hong Xi Investment Inc. | $6 | $- |

(d) Accounts receivable – related parties

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Other related party | | |
| Caremed Supply Inc. | $879 | $629 |
| Bemis Taiwan Ltd. | - | 615 |
| Bemis Hong Kong Ltd. | - | 8,136 |
| Total | $879 | $9,380 |

(e) Accounts payable – related parties

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Other related party | | |
| Caremed Supply Inc. | $- | $55 |
| Bemis Associates Inc. | - | 1,028 |
| Bemis Hong Kong Ltd. | - | 20 |
| Total | $- | $1,103 |

(f) Other payables– related parties

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Other related party | | |
| Caremed Supply Inc. | $- | $26 |

(g) Other income

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Other related party | | |
| Caremed Supply Inc. | $- | $549 |
| Bemis Associates Inc. | - | 26 |
| Bemis Hong Kong Ltd. | 77 | 112 |
| Total | $77 | $687 |

(h) Rent income

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Other related party | | |
| Ding-Cheng Investment Inc. | $27 | $- |
| Hong Xi Investment Inc. | 27 | - |
| Total | $54 | $- |

(i) Operating expenses

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Other related party | | |
| Caremed Supply Inc. | $- | $26 |

(j) Key management personnel compensation

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Short-term employee benefits | $30,802 | $35,245 |
| Termination benefits | 486 | 530 |
| Total | $31,288 | $35,775 |

8. Assets pledged as security

The following table lists assets of the Company pledged as security:

| | Carrying amount | | |
|---|---|---|---|
| Items | 2021.12.31 | 2020.12.31 | Secured liabilities |
| Property, plant and equipment-Land | $202,124 | $202,124 | Long and short-term loans |
| Property, plant and equipment-Building | 356,014 | 145,827 | Long and short-term loans |
| Property, plant and equipment-Machinery and equipment | 19,000 | - | Long and short-term loans |
| Other non-current assets – Other financial assets | - | 5,696 | Short-term loans |
| Total | $577,138 | $353,647 | |

9. Significant contingencies and unrecognized contractual commitments

(1) As of December 31, 2021, amounts available under unused letters of credit were NT$0.

(2) As of December 31, 2021, the Company entrusted financial institutes to open performance guarantee, which mainly related to apply for limit of credits amounting to NT$585,000 thousands and USD$2,000 thousand and for the FX swap transactions amounting to USD$60,000 thousands, respectively.

(3) As of December 31, 2021, the Company entrusted financial institutes to open performance guarantee, which mainly related to customers tax guarantee, amounting to NT $4,000 thousands.

(4) As of December 31, 2021, the Company entrusted financial institutes to open performance guarantee, which mainly related to apply for limit of machine loans, amounting to NT $89,500 thousands.

(5) As of December 31, 2021, the Company entered into contract to purchase the equipment amounted to approximately USD$4,390 thousands with prepayments of USD$1,537 thousands (recorded as "construction in progress and equipment awaiting examination" in property, plant and equipment), and the portion of contract not yet recognized was approximately USD$2,853 thousands.

10. Losses due to major disasters

None.

11. Significant subsequent events

None.

12. Others

(1) Categories of financial instruments

Financial Assets

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Financial assets measured at amortized cost | | |
| Cash and cash equivalents (excluding cash on hand) | $251,363 | $446,625 |
| Notes and accounts receivables, net (including related party) | 362,993 | 203,007 |
| Other receivables (including related party) | 18,277 | 29 |
| Other financial assets – current | - | 5,696 |
| Refundable deposits – non-current | 4,507 | 4,404 |
| Total | $637,140 | $659,761 |

Financial Liabilities

| | 2021.12.31 | 2020.12.31 |
|---|---|---|
| Financial liabilities at amortized at | | |
| Notes and accounts payables, net (including related party) | $326,571 | $155,582 |
| Other payables (including related party) | 103,015 | 81,593 |
| Long-term loans (including current portion with maturity less than 1 year) | 315,034 | 210,264 |
| Lease liabilities | 56,385 | 31,609 |
| Total | $801,005 | $479,048 |

(2) Financial risk management objectives and policies

The Company's principal financial risk management objective is to manage the market risk, credit risk and liquidity risk related to its operating activates. The Company identifies measures and manages the aforementioned risks based on the Company's policy and risk appetite.

The Company has established appropriate policies, procedures and internal controls for financial risk management. Before entering into significant transactions, due approval process by the Board of Directors must be carried out based on related protocols and internal control procedures. The Company complies with its financial risk management policies at all times.

(3) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprise currency risk, interest rate risk and other price risk.

In practice, it is rarely the case that a single risk variable will change independently from other risk variable, there is usually interdependency between risk variables. However, the sensitivity analysis disclosed below does not take into account the interdependencies between risk variables.

Foreign currency risk

The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency).

The Company has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore natural hedge is received.

The foreign currency sensitivity analysis of the possible change in foreign exchange rates on the Company's profit is performed on significant monetary items denominated in foreign currencies as of the end of the reporting period. The Company's foreign currency risk is mainly related to the volatility in the exchange rates for US dollars. The information of the sensitivity analysis is as follows:

When NTD strengthens/weakens against US dollars by 1%, the profit for the years ended December 31, 2021 and 2020 is increased/decreases by NT$4,253 thousands and NT$3,127 thousands, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's bank borrowings with fixed interest rates and variable interest rates.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period, including borrowings with variable interest rates. At the reporting date, a change of 10 basis points of interest rate in a reporting period could cause the profit for the years ended December 31, 2021 and 2020 to increase/decrease by NT$13 thousands and NT$11 thousands, respectively.

(4) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a contract, leading to a financial loss. The Company is exposed to credit risk from operating activities (primarily for accounts receivables and notes receivables) and from its financing activities, including bank deposits.

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit limits are established for all counter parties based on their financial position, rating from credit rating agencies, historical experience, prevailing economic condition and the Company's internal rating criteria etc. Certain counter parties credit risk will also be managed by taking credit enhancing procedures, such as requesting for prepayment or insurance.

As of December 31, 2021 and 2020, accounts receivables from top ten customers represented 80% and 67% of the total accounts receivables of the Company, respectively. The credit concentration risk of other accounts receivables is insignificant.

Credit risk from balances with banks is managed by the Company's treasury in accordance with the Company's policy. The Company only transacts with counterparties approved by the internal control procedures, which are banks and financial institutions, companies and government entities with good credit rating. Consequently, there is no significant credit risk for these counter parties.

Financial assets are written off when there is no realistic prospect of future recovery (the issuer or the debtor is in financial difficulties or bankruptcy).

When assessing the expected credit losses in accordance with IFRS 9, the evaluation of the forward-looking information (available without undue cost and effort) is mainly based on the macroeconomic information (including the indicators such as…) and the credit loss ratio is further adjusted if there is significant impact from forward-looking information.

(5) Liquidity risk management

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents 、 bank borrowings and leases. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

| | Less than 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As of December 31, 2021 | | | | | |
| Borrowings | $35,308 | $69,970 | $69,804 | $155,239 | $330,321 |
| Trade payable | 326,571 | - | - | - | 326,571 |
| Other payables | 103,015 | - | - | - | 103,015 |
| Lease liabilities | 15,624 | 22,185 | 14,396 | 1,930 | 54,135 |

| | Less than 1 year | 1 to 3 years | 3 to 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| As of December 31, 2020 | | | | | |
| Borrowings | $12,273 | $135,420 | $21,028 | $46,707 | $215,428 |
| Trade payable | 155,582 | - | - | - | 155,582 |
| Other payable | 81,593 | - | - | - | 81,593 |
| Lease liabilities | 13,544 | 12,758 | 5,125 | 2,183 | 33,610 |

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the year ended December 31, 2021:

| | Short-term loans | Long-term loans | Lease liabilities | Total liabilities from financing activities |
|---|---|---|---|---|
| As of January 1, 2021 | $- | $210,264 | $31,609 | $241,873 |
| Cash flows | - | 104,770 | (17,849) | 86,921 |
| Non-cash changes | - | - | 42,625 | 42,625 |
| As of December 31, 2021 | $- | $315,034 | $56,385 | $371,419 |

Reconciliation of liabilities for the year ended December 31, 2020:

| | Short-term loans | Long-term loans | Lease liabilities | Total liabilities from financing activities |
|---|---|---|---|---|
| As of January 1, 2020 | $147,486 | $125,749 | $28,707 | $301,942 |
| Cash flows | (147,486) | 84,515 | (16,991) | (79,962) |
| Non-cash changes | - | - | 19,893 | 19,893 |
| As of December 31, 2020 | $- | $210,264 | $31,609 | $241,873 |

(7) Fair values of financial instruments

A. The methods and assumptions applied in the fair value of financial instruments:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The following methods and assumptions were used by the Company to measure or disclose the fair values of financial assets and financial liabilities:

a. The carrying amount of cash and cash equivalents, trade receivables, other current assets, trade payable and other current liabilities approximate their fair value.

b. Fair value of bank loans is determined based on the counterparty prices or valuation method. The valuation method uses DCF method as a basis, and the assumptions such as the interest rate and discount rate are primarily based on relevant information of similar instrument (such as yield curves reference of Taipei Exchange, average prices for Fixed Rate Commercial Paper published by Reuters and credit risk, etc.)

B. Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities (including loan) measured at amortized cost approximate their fair value.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12.8 for fair value measurement hierarchy for financial instruments of the Company.

(8) Fair value measurement hierarchy

(a) Fair value measurement hierarchy

All asset and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole. Level 1, 2 and 3 inputs are described as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(b) Fair value measurement hierarchy of the Company's assets and liabilities

As of December 31, 2021 and 2020, the Company had no assets and liabilities measured and disclosed under fair value.

(c) Fair value measurement hierarchy of the Company's assets and liabilities not measured at fair value but for which the fair value is disclosed

As of December 31, 2021

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities not measured at fair value but for which the fair value is disclosed: | | | | |
| Loans | $- | $315,034 | $- | $315,034 |

As of December 31, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities not measured at fair value but for which the fair value is disclosed: | | | | |
| Loans | $- | $210,264 | $- | $210,264 |

(9) Significant assets and liabilities denominated in foreign currencies

Information regarding the significant assets and liabilities denominated in foreign currencies is listed below:

| | As of December 31, 2021 | | |
|---|---|---|---|
| | Foreign currency | Foreign exchange rate | NTD |
| Financial assets | | | |
| Monetary items： | | | |
| USD | $16,432 | 27.68 | $454,840 |
| Financial liabilities | | | |
| Monetary items： | | | |
| USD | 1,061 | 27.68 | 29,370 |

| | As of December 31, 2020 | | |
|---|---|---|---|
| | Foreign currency | Foreign exchange rate | NTD |
| Financial assets | | | |
| Monetary items： | | | |
| USD | $11,722 | 28.48 | $333,851 |
| Financial liabilities | | | |
| Monetary items： | | | |
| USD | 737 | 28.48 | 20,990 |

The above information is disclosed based on the original trading foreign currency.

The Company's monetary items were recognized as exchange losses of NT$5,202 thousands and NT$19,063 thousands as of December 31 , 2021 and 2020, respectively due to the significant impact of exchange rate fluctuations.

(10) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

13. Other disclosure

(1) Information at significant transactions

A. Financings provided to others: None.

B. Endorsement & Guarantee provided to others: None.

C. Securities held as of December 31, 2021: None.

D. Individual securities acquired or disposed of with accumulated amount exceeding NT$300 million or 20 % of the capital stock: None.

E. Acquisition of individual real estate with the amount exceeding NTD $300 million or 20% of the Company's paid-in capital: None.

F. Disposal of individual real estate with amount exceeding NTD $300 million or 20% of the Company's paid-in capital: None.

G. Related party transaction for purchases and sales amount exceeding NT$100 million or 20% of paid-in capital or more: None

H. Receivables from related parties with the amount exceeding NT$100 million or 20% of paid-in capital or more: None

I. Financial instruments and derivative transactions: None.

(2) Information on investees: None.

(3) Information on investments in mainland China: None.

(4) Information on major shareholders: Please refer to schedule 1

14. Segment information

(1) General information

The Company's revenue mainly comes from the production and sale of functional fabrics. The Company's operations decision-makers monitors the operating results of its business units separately to make decisions about resource allocation and performance assessment.

The accounting policy follows the same accounting policy referred to in Note 4.

(2) Information by area

Revenue from external clients：

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | 2020 |
| Taiwan | $146,004 | $89,057 |
| Asia (excluding Taiwan) | 790,504 | 507,075 |
| Americas | 613,587 | 613,590 |
| Others | 518,300 | 321,629 |
| Total | $2,068,395 | $1,531,351 |

A. Revenue is based on the country where the customer is located

B. The amount of non-current assets (other than deferred income tax assets) for the Company's as of December 31, 2021 and 2020 were NT$893,636 thousands and NT$789,205 thousands.

(3) Information for major customer (accounting for more than 10% of net sales)

| | For the year ended December 31 | |
|---|---|---|
| | 2021 | |
| Client | Amount | Percentage |
| B | $361,248 | 17.46 |
| C | 225,724 | 10.91 |

| | For the year ended December 31 | |
|---|---|---|
| | 2020 | |
| Client | Amount | Percentage |
| A | $306,371 | 20.01 |