

Stock code: 6167

Powertip Technology Corporation
Standalone Financial Statements and
Independent Auditor's Report

For the years 2021 and 2020

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Independent Auditor's Report

To the board of directors of Powertip Technology Corporation:

Audit opinions

We have audited the balance sheet of Powertip Technology Corporation as at December 31, 2021 and 2020, and the statement of comprehensive income, statement of changes in equity, cash flow statement, and the accompanying footnotes (including summary of key accounting policies) for the periods January 1 to December 31, 2021 and 2020.

In our opinion, all material disclosures of the standalone financial statements mentioned above were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and the version of International Financial Reporting Standards, and presented a fair view of the financial position of Powertip Technology Corporation as at December 31, 2021 and 2020, and business performance and cash flow for the periods January 1 to December 31, 2021 and 2020.

Basis of audit opinion

We have conducted our audits on the standalone financial statements in accordance with Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and the generally accepted auditing standards. Our responsibilities as an auditor for the standalone financial statements under the abovementioned standards are explained in the Responsibilities paragraph. All relevant personnel of the accounting firm have followed CPA code of ethics and maintained independence from Powertip Technology Corporation when performing their duties. We believe that the evidence obtained provide an adequate and appropriate basis for our opinion.

Key audit issues

Key audit issues are matters that we considered to be the most important, based on professional judgment, when auditing the 2021 standalone financial statements of Powertip Technology Corporation. These issues have already been addressed when we audited and formed our opinions on the standalone financial statements. Therefore we do not provide opinions separately for individual issues. Below are the key audit issues that we consider relevant for disclosure in this audit report:

I. Valuation of inventory

Please see Note 4(7) - Inventory of the standalone financial statements for more details on the accounting policy on inventory valuation; see Note 5 of the standalone financial statements for uncertainties associated with the accounting estimates and assumptions used; see Note 6(5) - Inventory of the standalone financial statements for additional remarks on inventory and related expenses and losses.

Explanation of key audit issues:

In the financial statement, inventory is valued at the lower of cost and net realizable value. Powertip Technology Corporation manufactures and sells various types of LCD display module. Considering that a launch of new display module is likely to change consumers' demand by a significant extent and render existing products obsolete or no longer appropriate for the market's needs, and that a loss of demand for display modules or price competition from competitors would increase the volatility of product selling price, there are situations where the cost of inventory may exceed its net realizable value. For this reason, inventory valuation test was identified as one of our key assessments when auditing the financial statements of Powertip Technology Corporation.

Audit procedures:

For the key audit issues mentioned above, we adopted audit procedures as deemed necessary to: test the appropriateness of relevant controls used in cost cycle, evaluate Powertip Technology Corporation's policies on provisioning for inventory devaluation or obsolescence losses, and determine whether provisions have been made in accordance with existing policies and standards, while taking into consideration the possible impacts of COVID-19. We also examined previous provisions of inventory devaluation and obsolescence to establish the rationality of the management's inventory valuation practices, and to determine whether inventory valuation is appropriately disclosed.

II. Share of profit/loss from equity-accounted investments and subsidiaries

Please refer to Note 4(9) of the standalone financial statements for detailed accounting policy on equity-accounted investments. Please refer to Note 6(6) - Equity-accounted investment of the standalone financial statements for more detailed descriptions about equity-accounted investments.

Explanation of key audit issues:

Equity-accounted subsidiaries of Powertip Technology Corporation are mainly involved in the manufacturing and sale of LCD display modules, and hold significant assets in the form of accounts receivable and inventory. Considering that share of profit or loss from equity-accounted investments and subsidiaries make up a significant part of the standalone financial statements, we have identified share of profit or loss from equity-accounted investments and subsidiaries as one of the key assessments when auditing the standalone financial statements of Powertip Technology Corporation.

Audit procedures:

For the key audit issues mentioned above, we adopted audit procedures as deemed necessary to: learn available control procedures for equity-accounted investments; test changes in equity-accounted investments in the current year, including recognition of investment gains and share of other comprehensive income; and assess whether Powertip Technology Corporation has applied the equity method in accordance with relevant standards.

Responsibilities of the management and governance body to the standalone financial statements

Responsibilities of the management were to prepare and ensure fair presentation of standalone financial statements in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and to exercise proper internal control practices that are relevant to the preparation of standalone financial statements so that the standalone financial statements are free of material misstatements, whether caused by fraud or error.

The management's responsibilities when preparing standalone financial statements also involved: assessing the ability of Powertip Technology Corporation to operate, disclose information, and account for transactions as a going concern unless the management intends to liquidate Powertip Technology Corporation or cease business operations, or is compelled to do so with no alternative solution.

The governance body of Powertip Technology Corporation (including the Audit Committee) is responsible for supervising the financial reporting process.

Responsibilities of the auditor when auditing standalone financial statements

The purposes of our audit were to obtain reasonable assurance of whether the standalone financial statements were prone to material misstatements, whether due to fraud or error, and to issue a report of our audit opinions. We considered assurance to be reasonable only if it is highly credible. However, audit tasks conducted in accordance with generally accepted auditing principles do not necessarily guarantee detection of all material misstatements within the standalone financial statements. Misstatements can arise from fraud or error. Misstatements are considered material if the individual amount or aggregate total is reasonably expected to affect economic decisions of the standalone financial statement user.

When conducting audits in accordance with generally accepted auditing principles, we exercised judgments and raised doubts as deemed professionally appropriate. We also performed the following tasks as an auditor:

1. Identifying and assessing risks of material misstatement due to fraud or error; designing and executing appropriate response measures for the identified risks; and obtaining adequate and appropriate audit evidence to support audit opinions. Fraud may involve conspiracy, forgery, intentional omission, untruthful declaration, or breach of internal control, and our audit did not find any material misstatement where the risk of fraud is greater than the risk of error.
2. Developing the required level of understanding on relevant internal controls and designing audit procedures that are appropriate under the prevailing circumstances, but without providing opinion on the effectiveness of internal control system of Powertip Technology Corporation.
3. Assessing the appropriateness of accounting policies adopted by the management, and the rationality of accounting estimates and related disclosures made.
4. Forming conclusions regarding the appropriateness of management's decision to account for the business as a going concern, and whether there are doubts or uncertainties about the ability of Powertip Technology Corporation to operate as a going concern, based on the audit evidence obtained. We are bound to remind users of standalone financial statements and make related disclosures if uncertainties exist in regards to the abovementioned events or circumstances, and amend audit opinions when the disclosures are no longer appropriate. Our conclusions are based on the audit evidence obtained up to the date of audit report. However, future events or change of circumstances may still render Powertip Technology Corporation no longer capable of operating as a going concern.
5. Assessing the overall presentation, structure, and contents of the standalone financial statements (including related footnotes), and whether certain transactions and events are presented appropriately in the standalone financial statements.
6. Obtaining sufficient and appropriate audit evidence on the financial information of equity-accounted investments, and expressing opinions on the standalone financial statements. Our responsibilities as auditor are to instruct, supervise, and execute audits and form audit opinions on Powertip Technology Corporation.

We have communicated with the governance body about the scope, timing, and significant findings (including significant defects identified in internal control) of our audit.

We have also provided the governance body with a declaration of independence stating that all relevant personnel of the accounting firm have complied with auditors' professional ethics of the Republic of China, and communicated with the governance body on all matters that may affect the auditor's independence (including protection measures).

We have identified the key audit issues after communicating with the governance body regarding the 2021 standalone financial statements of Powertip Technology Corporation. These issues have been addressed in our audit report except for: 1. Certain topics that are prohibited by law from disclosing to the public; or 2. Under extreme circumstances, topics that we decide not to communicate in the audit report because of higher negative impacts they may cause than the benefits they bring to public interest.

The engagement partners on the audit resulting in this independent auditor's report are Kuan-Ying Kuo and Jui-Lan Lo.

KPMG
Taipei, Taiwan (Republic of China)
March 18, 2022

Notes to Readers

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

Powertip Technology Corporation

Balance Sheet

As at December 31, 2021 and 2020

Unit: NTD thousands

Assets	2021.12.31		2020.12.31			Liabilities and equity		2021.12.31		2020.12.31	
Current assets:	Amount	%	Amount	%		Current liabilities:	Amount	%	Amount	%	
1100 Cash and cash equivalents (Note 6(1))	\$ 317,880	16	304,878	15	2170	Notes and accounts payable	\$ 137,870	7	89,220	4	
1170 Notes and accounts receivable - net (Note 6(3))	269,135	13	167,214	8	2180	Accounts payable - related parties (Note 7)	128,467	6	208,793	11	
1180 Accounts receivable - related parties, net (Notes 6(3) and 7)	1,248	-	3,237	-	2200	Other payables	48,730	3	45,011	2	
1310 Inventory (Note 6(5))	53,279	3	33,596	3	2230	Current income tax liabilities	3,229	-	-	-	
1476 Other financial assets - current (Notes 6(4), 7, and 8)	7,582	-	7,089	-	2300	Other current liabilities	25,575	1	17,860	1	
1470 Other current assets	19,982	1	14,205	1	2322	Long-term borrowings due within 1 year or 1 business cycle (Notes 6(9) and 8)	38,333	2	-	-	
	<u>669,106</u>	<u>33</u>	<u>530,219</u>	<u>27</u>			<u>382,204</u>	<u>19</u>	<u>360,884</u>	<u>18</u>	
Non-current assets:						Non-current liabilities:					
1517 Financial assets at fair value through other comprehensive income - non-current (Note 6(2))	-	-	1,023	-	2540	Long-term borrowings (Notes 6(9) and 8)	86,529	4	129,733	7	
1550 Equity-accounted investments (Note 6(6))	870,529	42	936,438	47	2640	Net defined benefit liabilities - non-current (Note 6(10))	23,959	1	27,825	1	
1600 Property, plant and equipment (Notes 6(7) and 8)	485,999	24	504,765	25	2570	Deferred income tax liabilities and others (Notes 6(11) and 7)	138	-	1,145	-	
1780 Intangible assets	3,439	-	1,454	-	2580	Lease liabilities - non-current	-	-	379	-	
1840 Deferred income tax assets (Note 6(11))	15,244	1	22,301	1		Total liabilities	<u>110,626</u>	<u>5</u>	<u>159,082</u>	<u>8</u>	
1900 Other non-current assets (Notes 6(8) and 8)	2,916	-	2,593	-		Equity: (Note 6(12))	<u>492,830</u>	<u>24</u>	<u>519,966</u>	<u>26</u>	
	<u>1,378,127</u>	<u>67</u>	<u>1,468,574</u>	<u>73</u>	3110	Common share capital	1,621,732	79	1,621,732	81	
					3200	Capital reserve	7,902	-	7,902	-	
					3350	Retained earnings (cumulative losses)	41,372	3	(40,540)	(2)	
					3400	Other equity item	(116,603)	(6)	(110,267)	(5)	
						Total equity	<u>1,554,403</u>	<u>76</u>	<u>1,478,827</u>	<u>74</u>	
Total assets	<u>\$ 2,047,233</u>	<u>100</u>	<u>1,998,793</u>	<u>100</u>		Major contingent liabilities and unrecognized contractual commitments (Note 9)					
						Total liabilities and equity	<u>\$ 2,047,233</u>	<u>100</u>	<u>1,998,793</u>	<u>100</u>	

(Please refer to the attached notes to standalone financial statements)

Chairman: Shih-Yue Wang

Manager: Shih-Yue Wang

Head of Accounting: Shao-Ling Liu

Powertip Technology Corporation
Statement of Comprehensive Income
For the periods January 1 to December 31, 2021 and 2020

		Unit: NTD thousands			
		2021		2020	
		Amount	%	Amount	%
4100	Net sales revenues (Notes 6(14) and 7)	\$ 1,767,842	100	1,421,449	100
5000	Operating costs (Notes 6(5), 6(10), 7, and 12)	1,494,687	84	1,242,304	87
5900	Gross profit	273,155	16	179,145	13
5920	Plus: realized (unrealized) gain or loss on sale	743	-	222	-
5900	Gross profit	273,898	16	179,367	13
Operating expenses (Notes 6(10) and 12):					
6100	Selling and marketing expenses	49,409	3	40,442	3
6200	General and administrative expenses	51,592	3	53,930	4
6300	Research and development expenses	39,496	2	41,968	3
6450	Expected credit loss	-	-	28,163	2
		140,497	8	164,503	12
6900	Operating profit	133,401	8	14,864	1
Non-operating income and expenses:					
7100	Interest income	250	-	319	-
7375	Share of gain from subsidiaries, associated companies, and joint ventures accounted using the equity method (Note 6(6))	(51,828)	(3)	13,786	1
7190	Other income (Note 7)	6,954	-	17,409	1
7230	Gain (loss) on exchange (Note 6(16))	4,225	-	(845)	-
7235	Gain on financial assets (liabilities) at fair value through profit or loss	-	-	279	-
7510	Interest expense (Note 7)	(1,308)	-	(2,681)	-
		(41,707)	(3)	28,267	2
7900	Profit before tax	91,694	5	43,131	3
7950	Less: income tax expense (benefit) (Note 6(11))	10,800	1	2,266	-
Current net income		80,894	4	40,865	3
8300	Other comprehensive income:				
8310	Items not reclassified into profit or loss				
8311	Remeasurement of defined benefit plan	1,018	-	(2,084)	-
8349	Less: Income tax on items not reclassified into profit or loss	-	-	-	-
		1,018	-	(2,084)	-
8360	Items likely to be reclassified into profit or loss				
8361	Exchange differences on translation of financial statements of foreign operations	(7,127)	-	8,049	1
8380	Share of other comprehensive income from equity-accounted subsidiaries, associated companies and joint ventures - likely to be reclassified into profit or loss	(634)	-	2,547	-
8399	Less: income tax on items likely to be reclassified into profit or loss (Note 6(11))	(1,425)	-	1,610	-
Sum of items likely to be reclassified into profit or loss		(6,336)	-	8,986	1
8300	Other current comprehensive income (loss) (net, after-tax)	(5,318)	-	6,902	1
8500	Total comprehensive income - current	\$ 75,576	4	47,767	4
Earnings per share (NTD) (Note 6(13))					
9750	Basic earnings per share (NTD)	\$ 0.50		0.25	
9850	Diluted earnings per share (NTD)	\$ 0.50		0.25	

(Please refer to the attached notes to standalone financial statements)

Chairman: Shih-Yue Wang

Manager: Shih-Yue Wang

Head of Accounting: Shao-Ling Liu

Powertip Technology Corporation
Statement of Changes in Equity
For the periods January 1 to December 31, 2021 and 2020

Unit: NTD thousands

	Common share capital	Capital reserve	Unappropriate d earnings	Other equity items		Total	Total equity
				Exchange differences on translation of financial statements of foreign operations	Unrealized gain (loss) on financial assets at fair value through other comprehensive income		
Balance as at January 1, 2020	\$ 1,621,732	7,902	(79,321)	(79,763)	(39,490)	(119,253)	1,431,060
Current net income	-	-	40,865	-	-	-	40,865
Other comprehensive income (loss) - current	-	-	(2,084)	8,986	-	8,986	6,902
Total comprehensive income (loss) - current	-	-	38,781	8,986	-	8,986	47,767
Balance as at December 31, 2020	\$ 1,621,732	7,902	(40,540)	(70,777)	(39,490)	(110,267)	1,478,827
Balance as at January 1, 2021	\$ 1,621,732	7,902	(40,540)	(70,777)	(39,490)	(110,267)	1,478,827
Current net income	-	-	80,894	-	-	-	80,894
Other comprehensive income (loss) - current	-	-	1,018	(6,336)	-	(6,336)	(5,318)
Total comprehensive income (loss) - current	-	-	81,912	(6,336)	-	(6,336)	75,576
Balance as at December 31, 2021	\$ 1,621,732	7,902	41,372	(77,113)	(39,490)	(116,603)	1,554,403

(Please refer to the attached notes to standalone financial statements)

Chairman: Shih-Yue Wang

Manager: Shih-Yue Wang

Head of Accounting: Shao-Ling Liu

Powertip Technology Corporation

Cash Flow Statement

For the periods January 1 to December 31, 2021 and 2020

Unit: NTD thousands

	2021	2020
Cash flow from operating activities:		
Current profit before tax	\$ 91,694	43,131
Adjustments:		
Income, expenses and losses:		
Depreciation expenses	22,016	20,819
Amortization expenses	788	511
Expected credit loss	-	28,163
Interest expenses	1,308	2,681
Interest income	(250)	(319)
Share of losses (profits) on equity-accounted subsidiaries, associated companies, and joint ventures	51,828	(13,786)
Others	(849)	(334)
Total income, expenses and losses	74,841	37,735
Net change in assets related to operating activities:		
(Increase) decrease in notes and accounts receivable	(101,921)	57,800
Decrease in accounts receivable - related parties	1,989	5,168
(Increase) decrease in inventory	(19,683)	7,982
(Increase) decrease in other financial assets	(698)	8,296
(Increase) decrease in other current assets	(5,777)	7,612
Total net change in assets related to operating activities	(126,090)	86,858
Net change in liabilities related to operating activities:		
Increase (decrease) in notes and accounts payable	(31,676)	7,954
Increase (decrease) in other payables and other current liabilities	11,547	(5,150)
Decrease in net defined benefit liabilities	(2,848)	(2,578)
Total net change in liabilities related to operating activities	(22,977)	226
Total net change in assets and liabilities related to operating activities	(149,067)	87,084
Total adjustments	(74,226)	124,819
Cash inflow from operating activities	17,468	167,950
Interest received	242	319
Interest paid	(1,492)	(3,062)
Income tax refunded	193	53
Net cash inflow from operating activities	16,411	165,260
Cash flow from investing activities:		
Acquisition of property, plant and equipment	(1,967)	(37,638)
Disposal of financial assets at fair value through other comprehensive income	1,023	-
Dividends received	7,265	1,090
Other investing activities	(4,036)	664
Net cash inflow (outflow) from investing activities	2,285	(35,884)
Cash flow from financing activities:		
Borrowing of long-term loan	25,129	69,733
Repayment of long-term borrowings	(30,000)	(120,000)
Increase in guarantee deposits received	(76)	-
Repayment of lease liabilities	(747)	(731)
Net cash outflow from financing activities	(5,694)	(50,998)
Increase in cash and cash equivalents for the current period	13,002	78,378
Opening cash and cash equivalents balance	304,878	226,500
Closing cash and cash equivalents balance	\$ 317,880	304,878

(Please refer to the attached notes to standalone financial statements)

Chairman: Shih-Yue Wang

Manager: Shih-Yue Wang

Head of Accounting: Shao-Ling Liu

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Powertip Technology Corporation Notes to Standalone Financial Statements For the years 2021 and 2020

(Unless otherwise specified, all amounts are presented in NTD thousands)

I. Company history

Powertip Technology Corporation (the Company) was incorporated on September 2, 1991 under the approval of the Ministry of Economic Affairs, and has business address registered at No. 8, Gongyequ 6th Road, Xitun District, Taichung City. The Company is mainly involved in the manufacturing, processing, and trading of various types of LCD display module.

II. Financial statement approval date and procedures

The standalone financial statements were passed during the board of directors meeting dated March 18, 2022.

III. Application of new and amended standards and interpretations

- (I) Effect of adopting the latest and amended standards and interpretations approved by Financial Supervisory Commission ("FSC")

The Company became subject to the newly revised international financial reporting standards listed below since January 1, 2021, and the adoption of which had no material impact on the standalone financial statements.

- Amendments to IFRS 4 regarding "Extension of the Temporary Exemption from Applying IFRS 9"
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 regarding "Interest Rate Benchmark Reform - Phase 2"
- Amendments to IFRS 16 regarding "Covid-19-Related Rent Concessions after June 30, 2021"

- (II) Impact of not adopting FSC-approved IFRS

Based on the Company's own evaluation, adopting the newly revised international financial reporting standards listed below that take effect from January 1, 2022 onwards do not have material impact on the standalone financial statements.

- Amendments to IAS 16 regarding "Property, Plant and Equipment: Proceeds before Intended Use"
- Amendment to IAS 37 regarding "Onerous Contracts - Cost of Fulfilling a Contract"
- IFRS improvements for years 2018-2020

Notes to standalone financial statements of Powertip Technology Corporation (continued)

- Amendments to IFRS 3 regarding "Reference to the Conceptual Framework"
- (III) Newly published/revised standards and interpretations that are not yet approved by FSC
 - The Company expects no material impact from the following newly published and revised standards that are not yet approved by FSC.
 - Amendments to IFRS 10 and IAS 28 regarding "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"
 - IFRS 17 - Insurance Contracts and amendments to IFRS 17
 - Amendments to IAS 1 regarding "Classification of Liabilities as Current or Non-current"
 - Amendments to IAS 1 regarding "Disclosure of Accounting Policies"
 - Amendments to IAS 8 regarding "Definition of Accounting Estimates"
 - Amendments to IAS 12 regarding "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

IV. Summary of significant accounting policies

Below is a summary of significant accounting policies adopted for the preparation of standalone financial statements. Unless otherwise specified, the following accounting policies have been applied consistently across all periods presented in this financial statement.

(I) Statement of compliance

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

(II) Basis of preparation

1. Basis for measurement

This financial statement is prepared on the basis of historical cost, except for the key balance sheet items listed below:

- (1) Financial assets at fair value through profit or loss (including derivatives);
- (2) Financial assets at fair value through other comprehensive income; and
- (3) Net defined benefit liabilities, which is measured by deducting the present value of defined benefit plan obligations and the effect of the limits described in Note 4(17) from the fair value of pension fund assets.

2. Functional currency and presentation currency

The Company has designated its functional currency as the main currency used in the economic environment where operations take place. The standalone financial statements are presented using the Company's functional currency (NTD). All financial figures denominated in NTD have been presented in NTD thousands.

(III) Foreign currency

1. Foreign currency transactions

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Foreign currency transactions are converted into the functional currency using exchange rates as of the date of transaction. Foreign currency monetary items outstanding at the end of each reporting period (referred to as reporting date below) are subsequently converted into the functional currency using exchange rate applicable on that day.

Foreign currency-denominated non-monetary items carried at fair value are converted into the functional currency using exchange rate as of the valuation date. Foreign currency-denominated non-monetary items carried at historical cost are converted using exchange rate as of the initial transaction date.

Differences from foreign currency conversion are generally recognized through profit or loss, or recognized through other comprehensive income under the following circumstances:

- (1) Equity instruments designated to be carried at fair value through other comprehensive income;
- (2) Financial liabilities designated to hedge net investment in foreign operations, within the effective scope of hedge; or
- (3) Qualifying cash flow hedge, within the effective scope of hedge.

2. Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising at the time of acquisition, are converted into the functional currency using exchange rates as at the reporting date. Income, expenses, and losses are converted into the functional currency using average exchange rate for the current period. Any differences on exchange are recognized through other comprehensive income.

If a disposal of foreign operation results in a loss of control, joint control, or significant influence, all conversion differences previously accumulated on the foreign operation are reclassified into profit or loss. In a partial disposal of subsidiary that contains foreign operations, conversion differences previously accumulated on the subsidiary are re-allocated proportionally to non-controlling shareholders. In a partial disposal of associated company or joint venture that contains foreign operations, conversion differences previously accumulated on the investment are reclassified proportionally to profit or loss.

For monetary receivables or payables of foreign operations that do not have defined settlement plans and are impossible to be settled in the foreseeable future, any gains/losses arising from foreign currency exchange are treated as a part of net investments in the foreign operation and recognized through other comprehensive income.

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

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Assets that meet one of the following conditions are classified as current assets; assets that do not meet the criteria for current asset are classified as non-current assets:

1. Assets that are expected to be realized, or intended to be sold or consumed, over the normal operating cycle;
2. Assets that are held mainly for the purpose of trading;
3. Assets that are expected to be realized within 12 months after the end of the reporting period; or
4. Cash or cash equivalents, except those that will be swapped or used to repay liabilities at least 12 months from the reporting period, and those with restricted uses.

Liabilities that match any of the following criteria are classified as current liabilities; liabilities that do not meet the criteria for current liability are classified as non-current liabilities:

1. Liabilities that are expected to be repaid within the normal operating cycle;
2. Liabilities that are held mainly for the purpose of trading;
3. Liabilities that are expected to be repaid within 12 months after the end of the reporting period; or
4. Liabilities with repayment terms that cannot be extended unconditionally beyond 12 months after the reporting period. Liabilities with terms that give counterparties the option to be repaid in the form of equity instruments do not affect their classification.

(V) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalent refers to short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Time deposit that meets the abovementioned definition and is intended to meet short-term cash commitment instead of investment or other purposes is stated as cash equivalent.

(VI) Financial instruments

Accounts receivable and debt securities issued are recognized at the time occurred. All other financial assets and financial liabilities are recognized at initiation when the Company becomes a party to a financial instrument contract. Financial assets or liabilities that are not carried at fair value through profit or loss (excluding accounts receivable without major financial component) are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance. Accounts receivable without major financial component are initially measured at transaction price.

1. Financial assets

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Purchase and sale of financial asset that conforms with customary practices is accounted using trade day accounting, and the same approach is applied consistently to financial assets of the same classification.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Financial assets are classified at initiation into: financial assets carried at amortized cost, financial assets at fair value through other comprehensive income, or financial assets at fair value through profit or loss.

Only when the Company changes the ways financial assets are managed will it reclassify the affected financial assets according to policy, starting from the next reporting period.

(1) Financial assets carried at amortized cost

Financial assets that meet all of the following conditions and are not designated to be carried at fair value through profit or loss are carried at amortized cost:

- Financial assets that are held for the purpose of collecting contractual cash flow.
- Contractual terms of the financial asset give rise to cash flows on specific dates, and the cash flows are intended solely to pay principals and interests accruing on outstanding principals.

These assets are subsequently carried at initial cost plus/less accumulated amortization calculated using the effective interest rate method and after adjusting for loss provisions. Interest income, gain/loss on foreign currency exchange, and impairment loss are recognized through profit or loss. When removed from balance sheet, gains or losses are recognize through profit or loss.

(2) Financial assets at fair value through other comprehensive income

Debt instruments that satisfy all of the following conditions and are not designated to be carried at fair value through profit or loss are carried at fair value through other comprehensive income:

- Financial assets that are held for the purpose of collecting contractual cash flow and sale.
- Contractual terms of the financial asset give rise to cash flows on specific dates, and the cash flows are intended solely to pay principals and interests accruing on outstanding principals.

At initiation, the Company can make an irrevocable choice to account for subsequent fair value changes through other comprehensive income for equity instruments that are not held for trading. The above choice is determined on an instrument-by-instrument basis.

Investments in debt instruments are subsequently measured at fair value. Interest income calculated using the effective interest method, gain/loss on currency exchange, and impairment loss are recognized through profit or loss; other net gains or losses are recognized through other comprehensive income. When removed from balance sheet,

Notes to standalone financial statements of Powertip Technology Corporation (continued)

amounts accumulated under other comprehensive income are reclassified into profit or loss.

Investments in equity instruments are subsequently measured at fair value. Dividend income is recognized through profit or loss (unless the dividends clearly represent a partial recovery of the investment cost). Other net gains or losses are recognized through other comprehensive income and are not reclassified into profit or loss.

Dividend income from equity investments are recognized on the day the Company becomes entitled to collect them (which is usually the ex-dividend day).

(3) Financial assets at fair value through profit or loss

Financial assets that are neither carried at amortized cost nor at fair value through other comprehensive income are carried at fair value through profit or loss; this includes derivative financial assets. At initial recognition, the Company can make an irrevocable decision to designate financial assets that satisfy the criteria of being carried at amortized cost or at fair value through other comprehensive income to be carried at fair value through profit or loss, for the purpose of eliminating or reducing accounting mismatch.

Balance is initially measured at fair value with transaction costs recognized through profit or loss, and subsequently measured at fair value with remeasurement gains or losses (including any dividend and interest income) recognized through profit or loss.

(4) Impairment on financial assets

The Company recognizes loss provisions on financial assets carried at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivables, guarantee deposits paid, and other financial assets) based on expected credit loss.

Loss provisions for the following financial assets are made based on 12 month expected credit loss; for all other financial assets, loss provisions are made based on expected credit loss for the remaining lifetime:

- Debt securities that are deemed to be of low risk as of the reporting date; and
- Other debt securities and bank deposits that exhibit no significant increase in credit risk (i.e. risk of default over the financial instrument's expected duration) since initial recognition.

Loss provisions for accounts receivable and contractual assets are measured based on expected credit loss over the remaining lifetime.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

When assessing whether a financial instrument has significantly increased in credit risk since initial recognition, the Company uses reasonable and verifiable information (that can be obtained without excessive cost or investment) including qualitative and quantitative data in conjunction with its own past experience, credit rating, and forecasts.

The Company considers a debt security to be of low credit risk if it is awarded a credit risk rating equivalent to the "investment grade" commonly recognized in the world (i.e. BBB- by Standard & Poor, Baa3 by Moody's, or twA by Taiwan Ratings, or higher).

The Company considers credit risk to have increased significantly if contractual payment is overdue for more than 30 days.

The Company considers financial asset to have defaulted if contractual payment is overdue for more than 90 days, or if the borrower is unlikely to fulfill credit obligation and make pay full payment to the Company.

Expected credit loss for the remaining lifetime refers to the amount of credit losses that the financial instrument is likely to incur due to any possible default event in the remaining lifetime.

12 month expected credit loss refers to the amount of credit loss that a financial instrument may incur due to default event in the next 12 months (or shorter, if the financial instrument's expected remaining lifetime is less than 12 months).

The longest duration by which expected credit loss is measured is the maximum contract duration in which the Company is exposed to credit risk.

Expected credit loss is estimated by weighing credit losses for the remaining lifetime of a financial instrument against probability of occurrence. Credit losses are measured as the shortfall of cash collected, which is the difference between the amount of contractual cash flow collectible and the amount of cash flow the Company expects to collect. Expected credit losses are discounted at effective interest rate applicable to the financial asset.

The Company assesses financial assets carried at amortized cost for credit impairment on every reporting date. A financial asset is deemed to have credit-impaired if estimated future cash flow exhibits one or several adverse events. Evidence of credit impairment includes any observable data that can be used to establish the following with respect to a financial asset:

- The borrower or issuer encounters significant financial distress;
- Event of default, such as delinquency or more than 90 day overdue;

Notes to standalone financial statements of Powertip Technology Corporation (continued)

- The Company grants compromise to the borrower for reasons relating to financial distress or contractual obligation that the Company would not have done so otherwise;
- The borrower is very likely to file for bankruptcy or undergo financial restructuring; or
- Occurrence of financial distress that may cause the financial asset to be removed from active market.

Loss provisions on financial assets carried at amortized cost are deducted from book value. Loss provisions and reversals are recognized through profit or loss.

When the Company has reason to believe that it may not recover part or all of a financial asset, the total book value of financial asset is reduced directly to reflect the expectation. If the counterparty is a corporate entity, the Company would analyze the timing and amount of charge-off based on rational expectations about recoverability. The Company expects no major reversal of amounts that it has charged off. However, the Company may still make claims on charged-off financial assets according to its recovery procedures.

(5) Removal of financial assets

Financial assets can be removed from balance sheet only if all contractual cash flow entitlements have ended, or if the asset has been transferred with virtually all risks and returns of ownership assumed by another party, or in situations where the Company neither transfers nor retains virtually all risks and returns associated with ownership and retains no control over such financial asset.

The Company will continue recognizing financial assets it has signed transfer agreement for on the balance sheet if it retains virtually all risks and returns associated with the ownership of the transferred asset.

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equity

Debt and equity instruments issued by the Company are classified into financial liabilities or equity depending on the terms of the underlying contract and the definitions of financial liability and equity used.

(2) Equity transactions

Equity instrument refers to any contract that represents the Company's entitlement to assets net of liabilities. Equity instruments issued by the Company are recognized at the amount of proceeds received net of direct issuing costs.

(3) Financial liabilities

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Financial liabilities are classified into those that are carried at amortized cost and those that are carried at fair value through profit or loss. Financial liabilities are carried at fair value through profit or loss if they are held for trading, characterized as derivative instrument, or designated to be so at initial recognition. Financial liabilities at fair value through profit or loss are carried at fair value with net gains and losses, including any interest expense, recognized through profit or loss.

Other financial liabilities are recognized at fair value plus directly attributable transaction costs at initiation, and subsequently measured at amortized cost using the effective interest method. Interest expenses and gains/losses on currency exchange are recognized through profit or loss. When removing from balance sheet, any gains or losses incurred are also recognized through profit or loss.

(4) Removal of financial liabilities

Financial liabilities are removed from the consolidated balance sheet upon fulfillment, cancellation, or expiry of contractual obligation. If a change in the terms of a financial liability alters cash flow by a significant extent, the old financial liability is removed and a new financial liability will be recognized based on the revised terms.

When a financial liability is removed, the difference between book value and the consideration paid or payable (including any non-cash assets transferred or any additional liabilities borne) is recognized through profit or loss.

(5) Offset of financial assets and liabilities

Financial assets and financial liabilities may be offset against each other and reported on the balance sheet in net amount only when the Company is legally entitled to do so, and has the intention to settle assets and liabilities in net amount or realize them both at the same time.

3. Derivative instruments and hedge accounting

The Company holds derivative instruments for hedging foreign currency and interest rate risks. For instruments with embedded derivatives, the embedded derivatives are accounted separately from the master contract if they meet certain criteria and that the master contract is not a financial asset. These derivatives are measured at fair value at initiation, and subsequently measured at fair value with remeasurement gains or losses recognized directly through profit or loss.

(VII) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost includes all costs incurred to acquire, produce, process, and bring inventory to its usable state and location, and is calculated using the weighted average method. Cost of finished goods and work-in-progress includes manufacturing overheads, which are allocated proportionally

Notes to standalone financial statements of Powertip Technology Corporation (continued)

based on normal production capacity. However, given the insignificant difference between actual and normal capacity, overheads were allocated based on actual capacity instead.

Net realizable value refers to the estimated selling price less all additional costs required for completion and all associated marketing expenses under normal circumstances.

(VIII) Investment in associated companies

Associated company is an entity in which the Company has significant influence over financial and operating decisions, but no single or joint control.

The Company accounts for associated companies using the equity method. Under the equity method, investments are accounted at acquisition cost at initiation; acquisition cost includes transaction cost. The book value of associated company includes goodwill recognized at initiation less any cumulative impairment losses.

The standalone financial statements include profit or loss and other comprehensive income from associated companies, recognized based on percentage of equity ownership and adjusted for consistency of accounting policy, from the day the Company gains significant influence until the day it no longer exercises significant influence. If an associated company undergoes a change of equity that is not attributed to profit, loss, or other comprehensive income and has no impact on the Company's shareholding percentage, the Company will recognize the change of equity proportionally in "Capital reserve."

Unrealized gains and losses arising from transactions between the Company and associated companies are recognized in corporate financial statements only for the percentage of ownership that is controlled by non-related investors.

The Company will stop recognizing losses on associated companies when its share of the loss equals or exceeds the value of equity held. The Company will recognize extra losses and liabilities only for legal obligations and constructive obligations occurred, or payments made on behalf of investees.

(IX) Investment in subsidiaries

When preparing standalone financial statements, the Company accounts for controlled investees using the equity method. Under the equity method, the amount of current profit/loss and other comprehensive income attributable to parent company shareholders are consistent between standalone and consolidated financial statements, and the amount of equity attributable to parent company shareholders are also consistent between standalone and consolidated financial statements.

Change of ownership interest in a subsidiary without losing control is treated as equity transaction between owners.

(X) Property, plant, and equipment

1. Recognition and measurement

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Property, plant, and equipment are recognized and measured using the cost method, and presented at original cost less accumulated depreciation and impairment. The original cost includes all cash outlays directly related to the acquisition of the asset. Furthermore, any software purchased for the purpose of integrating equipment functions is treated as a part of the equipment and is capitalized.

For any property, plant, or equipment that comprises several different components, each major component is treated as a separate property, plant, or equipment if it makes up a material part relative to total cost and if use of different depreciation rate or method is deemed more appropriate.

Gain or loss on disposal of property, plant, and equipment is recognized through profit or loss.

2. Subsequent costs

Subsequent expenditures are capitalized only when the Company is very likely to realize future economic benefits.

3. Depreciation

Depreciation is calculated using the straight-line approach, in which the cost of asset net of residual value is divided by the useful life of each component, and recognized through profit or loss.

No depreciation is provided on land.

The following useful life estimates are used for the current and comparative periods:

- (1) Buildings and accessory equipment: 1-50 years
- (2) Machinery: 1-8 years
- (3) Molding equipment: 1-6 years
- (4) Transport equipment: 1-5 years
- (5) Office and sundry equipment: 1-10 years

The Company reviews its depreciation method, useful life, and residual value estimates yearly on each reporting date. Changes are made as deemed necessary and appropriate.

(XI) Leases

The Company evaluates whether a contract meets the criteria of (or contains arrangements characterized as) lease on the day of establishment. A contract is considered as lease or deemed to contain lease elements if it involves a transfer of control over identified assets for a period of time in exchange for consideration.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

1. As a lessee

The Company recognizes right-of-use assets and lease liabilities on the lease start date. Right-of-use assets are measured at cost at initiation; this cost includes the initial amount of lease liability, adjusted for any lease payments paid on or before the lease start date, plus any initial direct costs incurred and any estimated costs to dismantle/remove the asset and restore the location or the asset to its original state, less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis from the lease start date until the end of useful life of right-of-use asset or until expiry of the lease tenor, whichever the earlier. Furthermore, the Company regularly assesses right-of-use assets for impairment and accounts for impairment losses as they occur. Right-of-use assets are also adjusted in circumstances where lease liabilities are subject to remeasurement.

Lease liabilities are initially measured as the present value of unpaid lease payments as at the lease start date. Interest rate implicit in a lease is used as the discount rate if it can be easily determined; if the rate can not be easily determined, the Company's incremental borrowing rate will be used as the discount rate instead. In general, the Company uses incremental borrowing rate as the discount rate.

The types of lease payments included in the calculation of lease liabilities include:

- (1) Fixed payments, including in-kind fixed payments;
- (2) Variable lease payments that are determined by certain index or rate, which are initially measured using index or rate as at the lease start date.

Lease liabilities subsequently accrue interest using the effective interest approach, and are remeasured in the following circumstances:

- (1) When there is a change in the index or rate used for determining lease payments, which leads to changes in future lease payments;
- (2) When there is a change in the likelihood of exercising lease extension/termination option, which may alter expectation about the lease tenor; and
- (3) When there is a change in leased asset, scope of lease, or other terms.

When lease liability is remeasured due to a change in the index or rate used to determine lease payment or due to a change in the assessment of purchase, extension, or termination option, a corresponding adjustment is also made to the book value of right-of-use asset at the same time. When book value of the right-of-use asset has been reduced to zero, further remeasurements are recognized through profit or loss instead.

Any contract amendment that reduces the scope of lease is accounted by reducing the book value of right-of-use asset by an amount that reflects partial or total termination of

Notes to standalone financial statements of Powertip Technology Corporation (continued)

lease arrangement. Any difference between right-of-use asset and remeasured lease liability is recognized through profit or loss.

Right-of-use assets that do not meet the definition of investment property and lease liabilities are presented on the balance sheet as single-line items.

For short-term leases such as corporate vehicles and photocopiers and leases of low-value assets, the Company chooses not to recognize right-of-use asset or liability, but instead recognizes lease payments as expenses over the course of the lease tenor on a straight-line basis.

2. As a lessor

For lease arrangements where the Company is a lessor, the terms of the lease contract are evaluated to determine whether virtually all risks and returns associated with ownership of the asset are transferred on the day of lease commencement. If so, the contract would be classified as a financial lease; if not, the asset would be classified as an operating lease. When evaluating leases, the Company takes into consideration whether the lease tenor covers a major portion of the asset's useful life, among other indicators.

For lease arrangements where the Company is an intermediate lessor, the Company accounts for the master lease and the sublease separately, and classifies the sublease based on the right-of-use asset given rise by the master lease. If the master lease is short-term in nature and is exempted from lease recognition, the sublease is classified as operating lease.

(XII) Intangible assets

1. Research and development

Expenses relating to research activities are recognized in profit or loss when incurred.

Development expenses are capitalized only if: the amount can be measured reliably; the product or process being developed is technologically or commercially feasible; the Company is very likely to receive future economic benefits; and the Company has both the intention and adequate resources to complete the development and make use or sell the completed result. All other development expenses are recognized through profit or loss when incurred. After initial recognition, capitalized development expenses are measured at cost less accumulated amortization and impairment.

2. Other intangible assets

Other intangible assets of limited useful life acquired by the Company are carried at cost less accumulated amortization and cumulative impairment.

3. Subsequent expenses

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Subsequent expenses are capitalized only if they are able to increase future economic benefits of certain assets. All other expenses are recognized through profit or loss when incurred, including internally developed goodwill and brands.

4. Amortization

When accounting for amortization, the amortizable amount is determined as the cost of asset less residual value.

Except for goodwill and intangible assets with undefined useful life, intangible assets are amortized using the straight-line method over the useful life from the time they reach the usable state. Amortizations are recognized in profit or loss.

The following useful life estimates are used for the current and comparative periods:

- (1) Cost of computer software: 1-5 years
- (2) Patent: amortized over the number of useful years

The Company examines its amortization method, useful life, and residual value estimates for intangible assets on each reporting date. Changes are made as deemed necessary and appropriate.

(XIII) Impairment of non-financial assets

The Company evaluates non-financial assets (excluding inventory, contractual assets, and deferred income tax assets) for signs of impairment in the book value on each reporting date. Assets that exhibit any of the signs will have recoverable amount estimated.

For the purpose of impairment testing, assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets are determined as a smallest identifiable group of assets. Goodwill acquired through business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination.

Recoverable amount is determined as fair value less disposal cost or the utilization value, whichever the higher. Utilization value is assessed by discounting projected cash flows to the present value using the pre-tax discount rate. This discount rate reflects the time value that the market has currently priced for the given currency, and risks that are specific to the given asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit falls below its book value, the difference is recognized as impairment loss.

Impairment losses are immediately recognized through current profit or loss against a reduction to the book value of goodwill that has been allocated to the cash-generating unit; any remaining amount of impairment will then be taken to reduce book values of other assets within the unit on a pro-rated basis (i.e. proportionally based on book value weight of each asset).

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Goodwill impairment is not reversed in any case. For non-financial assets other than goodwill, impairment losses can be reversed provided that doing so does not exceed the new book value (net of depreciation or amortization) of the particular asset if impairment losses were not recognized in the first place.

(XIV) Revenue recognition

1. Revenue from contracts with customers

Income is measured as the amount of consideration expected to receive for the delivery of merchandise or service. The Company recognizes income when control of merchandise or service has been transferred to customers and the contractual obligations fulfilled. A more detailed description by main revenue categories is as follows:

(1) Sale of merchandise

The Company manufactures and sells LCD display modules. The Company recognizes revenues when control of product has been transferred. Product control is deemed to have transferred upon delivery, at a time when customer is able to exercise full discretion over the use of sales channel and selling price and no unfulfilled obligations exist that may otherwise affect customer's acceptance of the product. Delivery is deemed to have taken place when products are shipped to the designated location where all risks of obsolescence and loss are assumed by the customer, and that the customer accepts the products according to sales contract, thereby voiding the acceptance clause, or under any other circumstances where the Company has objective evidence to prove having satisfied all inspection criteria.

The Company recognizes accounts receivable at the time merchandise is delivered, as the Company has unconditional rights to collect consideration at this point.

(2) Financial component

The Company expects no more than one year between the time at which merchandise or service is transferred to customers and the time at which payment is received for such merchandise or service for all its customers. As a result, no time value adjustment is made to the transaction price.

(XV) Accounting for sale of raw materials and buyback of finished goods

The Company sells raw materials directly to Mainland subsidiaries for production; some of the finished goods are bought back directly by the Company and sold to customers. When preparing financial statements, this type of material sale is accounted as subcontracted processing in accordance with Correspondence No. (87)-Tai-Tsai-Cheng-(6)-00747 issued by Securities and Futures Institute on March 18, 1998, in which the sale of raw materials is offset against sales revenues and cost of sales.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(XVI) Government grants

The Company recognizes unconditional government grant as other income at the time when it becomes entitled to receive the grant. For asset-related grants, the Company recognizes the grants as deferred income at fair value when it has reasonable assurance about complying with conditions of the government grant and receiving such grant; this deferred income is recognized as other income on a systematic basis over the asset's useful life. Government grants that are intended to compensate the Company for various expenses or losses incurred are recognized in profit or loss on a systematic basis at the same time as related expenses.

(XVII) Employee benefits

1. Defined contribution plan

Obligated contributions under the defined contribution plan are recognized as employee benefit expense through profit or loss for the duration of services rendered.

2. Defined benefit plan

Pension plans other than defined contribution plan are treated as defined benefit plans. The Company's net obligation under defined benefit plans are determined as the present value of employees' future benefits earned from current or previous services rendered. Fair value of any plan asset is deducted from net defined obligations. The discount rate is determined based on market yield of a government bond that has maturity date close to expiration of the Company's net obligation and is denominated in the same currency as expected benefit payment as of the reporting date.

Net obligations are estimated by a qualified actuary using the Projected Unit Credit Method on a yearly basis. Where actuarial results are favorable to the Company, the asset ceiling is determined as the present value of economic benefits available in the form of refund or reductions in future contributions. When calculating present value of economic benefit, the Company takes into consideration the minimum contribution requirement of all applicable plans. A benefit is considered to provide economic value to the Company if it can be realized over the course of a plan or upon settlement of plan liabilities.

Should plan benefits improve in the future, the increase in benefit that is attributed to previous services rendered by employees are recognized as expense immediately through profit or loss.

Remeasurement of net defined benefit obligation (asset) includes: (1) Actuarial gains/losses; (2) Return on plan assets, but excluding net interests that are already included as part of net defined benefit obligation (asset); and (3) Changes in the effect of the asset ceiling, but excluding net interests that are already included as part of net

Notes to standalone financial statements of Powertip Technology Corporation (continued)

defined benefit obligation (asset). Remeasurement of net defined benefit obligation (asset) is recognized under other comprehensive income. However, the Company may choose to transfer amounts that have been recognized under other comprehensive income into retained earnings or other equity item. Amounts that have been transferred into other equity item can no longer be reclassified into profit or loss or retained earnings in subsequent periods, and such practices are applied consistently in future periods. The Company recognizes remeasurements of defined benefit plan in retained earnings.

The Company recognizes gain or loss on curtailment or settlement of defined benefit plan at the time it takes place. Gain/loss on curtailment or settlement includes all fair value changes in the plan asset and all present value changes in defined benefit obligation.

3. Short-term employee benefits

Short-term employee benefit obligation is measured on a non-discounted basis, and recognized as expense when relevant services are rendered.

If the Company has a statutory or constructive obligation to pay benefits in the current period due to services rendered by employee in the past and such obligation can be estimated reliably, the amount of short-term cash bonus or amount expected to be paid under the profit-sharing plan is recognized as liability.

(XVIII) Income tax

Income tax expense comprises current income tax and deferred income tax. Current income tax and deferred income tax are recognized through profit or loss, except for amounts that arise in relation to business combination and items that are recognized directly under equity or other comprehensive income.

Based on the Company's judgment, interest and penalties related to income taxes (including uncertainty over income tax treatments) do not meet the definition of income tax, and are therefore subject to the accounting treatment of IAS 37.

Current income tax includes all income taxes refundable/payable for the current year, which is calculated based on current year's taxable income (or loss), plus any adjustment to income tax payable/refundable in previous years. This amount reflects uncertainty over income tax treatments (if any), and represents the best estimate for the amount payable/collectible using statutory or substantively enacted tax rates as of the reporting date.

Deferred income tax represents the tax impact of temporary differences between asset/liability figures presented for financial reporting purpose and asset/liability figures used for taxation basis. No deferred income tax is recognized on temporary differences that arise under the following circumstances:

Notes to standalone financial statements of Powertip Technology Corporation (continued)

1. Initial recognition of assets or liabilities for transactions unrelated to business combination, provided that accounting profit and taxable income (loss) are unaffected at the time of transaction;
2. Temporary differences arising from investment in subsidiaries, associated companies, and joint ventures, where the Company has control over the timing at which temporary difference is reversed and that the temporary difference is unlikely to be reversed in the foreseeable future; and
3. Taxable temporary differences arising from initial recognition of goodwill.

Unused tax losses and tax credits can be carried forward, added to deductible temporary differences, and recognized as deferred income tax assets to the extent that is likely to be offset against taxable income earned in the future. Deferred income tax assets are evaluated on each reporting date. Tax benefits that are not very likely to be realized will be reduced down to the realizable amount, and amounts previously reduced may be reversed up to the point where sufficient taxable income can be generated.

Deferred income tax is calculated using tax rate that is expected to be effective at the time the temporary difference is reversed. In this financial statement, the statutory tax rate or substantively enacted tax rate is used for calculation, and is deemed to have reflected uncertainty over income tax treatments (if any).

The Company will offset deferred income tax assets against deferred income tax liabilities only when the following conditions are met:

1. When it is legally entitled to offset current income tax assets against current income tax liabilities; and
2. The deferred income tax assets and deferred income tax liabilities arise in relation to income taxes imposed by the same tax authority, and the tax-paying entities meet any of the following conditions:
 - (1) The tax-paying entities are one and the same; or
 - (2) The tax-paying entities are different, but all entities have the intent to settle current income tax liabilities and assets on a netted basis or realize them at the same time, for every future period in which they expect to recover deferred income tax assets and settle deferred income tax liabilities.

Additional business income tax on unappropriated retained earnings is treated as income tax expense for the following year after a resolution is sought during the annual general meeting to retain the earning.

(XIX) Earnings per share

Notes to standalone financial statements of Powertip Technology Corporation (continued)

The Company presents earnings per share attributable to the Company's common shareholders in basic and diluted terms. Basic earnings per share of the Company is calculated by dividing the amount of profits attributable to the Company's common shareholders with the weighted average number of outstanding common shares for the given period. Diluted earnings per share is calculated after adjusting the amount of profits attributable to the Company's common shareholders and weighted average number of common shares for the dilutive effect of potential common shares.

(XX) Segment information

The Company has already disclosed segment information in the consolidated financial statements, therefore no segment information is disclosed in the standalone financial statements.

V. Sources of uncertainty to significant accounting judgments, estimates, and assumptions

When preparing the standalone financial statements, the management is required to make judgments, estimates, and assumptions in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers." These judgments, estimates, and assumptions may affect the types of accounting policies adopted and amounts of asset, liability, income, and expense reported. The actual outcome may differ from initial estimates.

The management examines its estimates and assumptions on an ongoing basis. Impacts from changes in accounting estimate are recognized in the year the changes take place and in future years when impacts materialize.

Accounting policies that involve significant judgment and have material effect on the amounts recognized in the standalone financial statements are explained below:

- (I) Please refer to the 2021 consolidated financial statements for more details on how the management forms its judgment of whether the Company has control and material influence over associated companies.

Below is a list of assumptions and estimates that are highly uncertain and may result in significant adjustments in the following year:

- (I) Valuation of inventory

Due to the fact that inventory is measured at the lower of cost and net realizable value, the Company assesses inventory on each reporting date for any decrease in sales value due to normal wear, obsolescence, or absence of market demand, and reduces inventory cost to net realizable value accordingly. This inventory valuation is made by estimating product demand within a specific period of time in the future, which may give rise to significant changes due to rapid development of the industry. For details on inventory valuation, please refer to Note 6(5).

Notes to standalone financial statements of Powertip Technology Corporation (continued)

VI. Notes to major accounts

(I) Cash and cash equivalents

	<u>2021.12.31</u>	<u>2020.12.31</u>
Petty cash and cash on hand	\$ 470	398
Check and current deposits	276,710	299,980
Time deposits	40,700	4,500
	<u>\$ 317,880</u>	<u>304,878</u>

Please see Note 6(16) for detailed disclosure of exchange rate risk, interest rate risk, and sensitivity analysis on the Company's financial assets and liabilities.

Some of the Company's time deposits with a tenor of three months and longer have been placed as collateral and presented as Other financial assets - current. Please see Note 6(4) for details.

(II) Financial assets at fair value through other comprehensive income

	<u>2021.12.31</u>	<u>2020.12.31</u>
Equity instruments at fair value through other comprehensive income:		
Foreign non-listed (non-OTC traded) shares - Powertip Japan Co., Ltd.	<u>\$ -</u>	<u>1,023</u>

1. Equity instruments at fair value through other comprehensive income

This category of equity instruments are held as strategic long-term investments and not for trading, and therefore are designated to be measured at fair value through other comprehensive income.

2. Please refer to Note 6(16) for detailed information on credit risk and market risk.

3. None of the Company's financial assets at fair value through other comprehensive income was placed as collateral as at December 31, 2020.

4. In March 2021, the Company sold all 760 shares of Powertip Japan Co., Ltd., a business investment measured at fair value through other comprehensive income, to Techtuit Co., Ltd. for NT\$1,023 thousand (JPY 3,800 thousand). Fair value at the time of disposal was reported at NT\$1,023 thousand. In 2020, the Company did not dispose of any strategic investment or transfer any cumulative gain or loss under equity.

(III) Notes & accounts receivable (including related parties)

	<u>2021.12.31</u>	<u>2020.12.31</u>
Notes receivable	\$ 4,069	3,366
Accounts receivable	293,229	192,011
Accounts receivable - related parties	1,248	3,237
	298,546	198,614
Less: loss provisions	(28,163)	(28,163)
Notes and accounts receivable, net (including related parties)	<u>\$ 270,383</u>	<u>170,451</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

The Company adopts the simplified approach to estimate expected credit loss on all notes and accounts receivable, which involves measuring expected credit loss for the duration of its receivables. To facilitate this approach, notes and accounts receivable are divided into several groups of common credit risk characteristics by assessing customers' ability to make contractual payments at maturity. This approach takes into account forward-looking information such as the macroeconomic outlook and industry prospects. Expected credit loss analysis for notes and accounts receivable is explained below:

	2021.12.31		
	Book value of notes and accounts receivable	Weighted average expected credit loss rate	Provision for expected credit loss over the remaining duration
Current	\$ 267,048	0%	-
Overdue 31 - 60 days	3,330	0%	-
Overdue 61 - 90 days	5	0%	-
Overdue 91 - 180 days	-	0%	-
Overdue 181 days and above	28,163	100%	28,163
	<u>\$ 298,546</u>		<u>28,163</u>

	2020.12.31		
	Book value of notes and accounts receivable	Weighted average expected credit loss rate	Provision for expected credit loss over the remaining duration
Current	\$ 168,463	0%	-
Overdue 31 - 60 days	1,988	0%	-
Overdue 61 - 90 days	-	0%	-
Overdue 91 - 180 days	-	0%	-
Overdue 181 days and above	28,163	100%	28,163
	<u>\$ 198,614</u>		<u>28,163</u>

Changes in loss provision on notes receivable and accounts receivable is shown below:

	2021	2020
Opening balance	\$ 28,163	397
Charge-offs in the current period	-	(397)
Impairment loss provided	-	28,163
Closing balance	<u>\$ 28,163</u>	<u>28,163</u>

None of the Company's notes receivable and accounts receivable was placed as collateral as at December 31, 2021 and 2020.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Please see Note 6(16) for more details on exchange rate risk and sensitivity analysis concerning the Company's notes and accounts receivable for 2021 and 2020.

(IV) Other financial assets - current

	<u>2021.12.31</u>	<u>2020.12.31</u>
Restricted bank deposits	\$ 2,500	2,500
Other receivables (including related parties)	5,082	4,589
	<u>\$ 7,582</u>	<u>7,089</u>

The Company had placed some of its time deposits that did not meet the definition of cash equivalent as collaterals for letter of credit and customs guarantee as at December 31, 2021 and 2020. Please see Note 8 for details.

(V) Inventory

	<u>2021.12.31</u>	<u>2020.12.31</u>
Finished goods	\$ 9,111	3,648
Work-in-progress and semi-finished goods	7,700	11,452
Raw materials	26,664	17,605
Merchandise	9,804	891
	<u>\$ 53,279</u>	<u>33,596</u>

Details of operating costs recognized by the Company:

	<u>2021</u>	<u>2020</u>
Selling costs and expenses	\$ 1,490,678	1,239,603
Reversal of inventory obsolescence and devaluation loss	(2,813)	(15,541)
Inventory write-off and others	6,822	18,242
	<u>\$ 1,494,687</u>	<u>1,242,304</u>

None of the Company's inventory was pledged as collateral as at December 31, 2021 and 2020.

(VI) Equity-accounted investments

The Company's equity-accounted investments as at the reporting date are presented below:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Subsidiary	\$ 738,100	822,701
Associated companies	133,558	115,811
	871,658	938,512
Less: unrealized gain/loss	(1,129)	(2,074)
	<u>\$ 870,529</u>	<u>936,438</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

1. Subsidiaries

- (1) Please refer to the 2021 consolidated financial statements.
- (2) In 2020, the Company capitalized NT\$30,186 thousand of debt claims into share capital of subsidiary - America Technology Corp. (ATC Samoa).

2. Associated companies

- (1) The Company's share of profit or loss from associated companies is summarized below:

	<u>2021</u>	<u>2020</u>
The Company's share of current net loss from associated companies	<u>\$ 25,445</u>	<u>18,261</u>

- (2) Information of associated companies that are significant to the Company:

<u>Name of associated company</u>	<u>Nature of relationship with the Consolidated Entity</u>	<u>Main business location / country of registration</u>	<u>Percentage of ownership/voting right</u>	
			<u>2021.12.31</u>	<u>2020.12.31</u>
Powertip Image Corp. (Powertip Image)	Main business activities are the manufacturing of electronic parts and optical instruments	Taiwan	23.77%	23.77%

- (3) The following is a collective disclosure of financial information for the Company's significant associated companies. The figures of each associated company have been adjusted when preparing IFRS-compliant standalone financial statements to reflect the amount of adjustments the Company had made for fair value and difference in accounting policy at the time of acquisition:

Summary financial information of Powertip Image Corp.:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Current assets	\$ 580,685	493,868
Non-current assets	339,371	268,397
Current liabilities	(315,473)	(312,850)
Non-current liabilities	(59,069)	(16,585)
Net asset attributable to owners of the investee	<u>\$ 545,514</u>	<u>432,830</u>

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 840,699	789,767
Current net income (loss) from continuing operations	142,796	112,575
Other comprehensive income	(1,821)	7,308
Total comprehensive income attributable to owners of the investee	<u>\$ 140,975</u>	<u>119,883</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

	2021	2020
Opening share of net asset in associated companies	\$ 102,455	75,049
Dividends received from associated companies in the current period	(7,265)	(1,090)
Total comprehensive income attributable to the Company in the current period	<u>33,510</u>	<u>28,496</u>
Closing share of net asset in associated companies	128,700	102,455
Plus: land use rights	2,468	2,545
Buildings	2,390	3,014
Intangible assets	-	7,797
Closing book value of equity in associated company	<u><u>\$ 133,558</u></u>	<u><u>115,811</u></u>

3. Collateral

None of the Company's equity-accounted investment was pledged as collateral as at December 31, 2021 and 2020.

(VII) Property, plant and equipment

Changes in cost and accumulated depreciation of the Company's property, plant, and equipment are explained below:

	Land	Buildings	Machinery and equipment	Others	Total
Cost or deemed cost:					
Balance as at January 1, 2021	\$ 184,079	442,387	731,096	114,340	1,471,902
Additions	-	-	337	3,170	3,507
Inward (outward) reclassification	-	-	30,112	(31,108)	(996)
Disposals	-	-	-	(2,584)	(2,584)
Balance as at December 31, 2021	<u><u>\$ 184,079</u></u>	<u><u>442,387</u></u>	<u><u>761,545</u></u>	<u><u>83,818</u></u>	<u><u>1,471,829</u></u>
Balance as at January 1, 2020	\$ 184,079	437,872	731,058	87,521	1,440,530
Additions	-	854	-	38,828	39,682
Inward (outward) reclassification	-	3,661	38	(3,699)	-
Disposals	-	-	-	(8,310)	(8,310)
Balance as at December 31, 2020	<u><u>\$ 184,079</u></u>	<u><u>442,387</u></u>	<u><u>731,096</u></u>	<u><u>114,340</u></u>	<u><u>1,471,902</u></u>
Depreciation:					
Balance as at January 1, 2021	\$ -	178,120	717,756	71,261	967,137
Depreciation in current year	-	10,520	7,318	3,439	21,277
Disposals	-	-	-	(2,584)	(2,584)
Balance as at December 31, 2021	<u><u>\$ -</u></u>	<u><u>188,640</u></u>	<u><u>725,074</u></u>	<u><u>72,116</u></u>	<u><u>985,830</u></u>
Balance as at January 1, 2020	\$ -	168,482	712,463	71,513	952,458

Notes to standalone financial statements of Powertip Technology Corporation (continued)

	Land	Buildings	Machinery and equipment	Others	Total
Depreciation in current year	-	9,638	5,293	5,148	20,079
Disposals	-	-	-	(5,400)	(5,400)
Balance as at December 31, 2020	<u>\$ -</u>	<u>178,120</u>	<u>717,756</u>	<u>71,261</u>	<u>967,137</u>
Book value:					
December 31, 2021	<u>\$ 184,079</u>	<u>253,747</u>	<u>36,471</u>	<u>11,702</u>	<u>485,999</u>
January 1, 2020	<u>\$ 184,079</u>	<u>269,390</u>	<u>18,595</u>	<u>16,008</u>	<u>488,072</u>
December 31, 2020	<u>\$ 184,079</u>	<u>264,267</u>	<u>13,340</u>	<u>43,079</u>	<u>504,765</u>

The Company had placed some of its property, plant, and equipment as collateral for long-term borrowings and credit limits as at December 31, 2021 and 2020. Please see Note 8 for details.

(VIII) Right-of-use asset (presented as other non-current assets)

Changes in cost and depreciation of rented transport equipment is explained below:

	Transport equipment
Cost of right-of-use asset:	
Balance as at January 1, 2021 (i.e. closing balance)	<u>\$ 2,217</u>
Balance as at January 1, 2020 (i.e. closing balance)	<u>\$ 2,217</u>
Accumulated depreciation and impairment loss on right-of-use asset:	
Balance as at January 1, 2021	\$ 1,109
Provision for depreciation	<u>739</u>
Balance as at December 31, 2021	<u>\$ 1,848</u>
Balance as at January 1, 2020	\$ 369
Depreciation for the current period	<u>740</u>
Balance as at December 31, 2020	<u>\$ 1,109</u>
Book value:	
December 31, 2021	<u>\$ 369</u>
December 31, 2020	<u>\$ 1,108</u>

1. Lease of transport equipment

The Company rents transport equipment for tenors ranging from 1 to 3 years.

2. Other leases

The Company rents corporate vehicles and photocopiers for tenors ranging from 1 to 3 years. These leases are short-term or low-value in nature, for which the Company has opted the exemption rule to forgo recognition of right-of-use asset and lease liability.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(IX) Long-term borrowings

Details, conditions, and terms of the Company's medium-term and long-term borrowings are as follows:

	2021.12.31		
	Currency	Year of maturity	Amount
Unsecured bank borrowings	NTD	2022-2025	\$ 30,000
Secured bank borrowings	NTD	2022-2025	94,862
Less: portion maturing within 1 year			<u>(38,333)</u>
			<u>\$ 86,529</u>
Unused limit			<u>\$ 104,538</u>
Annual interest rate range			<u>0.69%-1.77%</u>

	2020.12.31		
	Currency	Year of maturity	Amount
Unsecured bank borrowings	NTD	2022-2025	\$ 30,000
Secured bank borrowings	NTD	2022-2025	99,733
			<u>\$ 129,733</u>
Unused limit			<u>\$ 129,667</u>
Annual interest rate range			<u>0.69%-2.03%</u>

1. Please see Note 6(16) for details on the Company's interest rate, exchange rate, and liquidity risk exposure.
2. Collaterals placed for bank borrowings
 - (1) Please see Note 7 for information regarding guarantors of the Company's short-term and long-term borrowings.
 - (2) Please see Note 8 for bank borrowings secured with the Company's assets.

(X) Employee benefits

1. Defined benefit plan

Reconciliation between present value of defined benefit obligations and fair value of plan assets:

	2021.12.31	2020.12.31
Present value of defined benefit obligations	\$ (69,073)	(81,107)
Fair value of plan assets	45,114	53,622
Net defined benefit liabilities	<u>\$ (23,959)</u>	<u>(27,485)</u>

Contributions for defined benefit plan are made to a dedicated pension fund account opened with Bank of Taiwan. For retirees who opted for the pension scheme mentioned in the Labor Standards Act, the amount of pension benefit is calculated based on average

Notes to standalone financial statements of Powertip Technology Corporation (continued)

salary for the six months preceding their retirement and the number of basis points accumulated over the duration of their service.

(1) Composition of plan assets

Pension fund contributions that the Company has made in accordance with the Labor Standards Act are collectively managed by the Bureau of Labor Funds (BLF), Ministry of Labor. Pursuant to "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund," plan assets can only be allocated to investments that offer annual yields higher than the 2-year time deposit rate quoted by local banks.

As at the reporting date, balance of the Company's labor pension reserve account held with Bank of Taiwan totaled NT\$45,114 thousand. Please visit the BLF website for more information such as fund yield and allocation of fund assets.

(2) Changes in present value of defined benefit obligations

Changes in present value of defined benefit obligations for 2021 and 2020 are explained below:

	<u>2021</u>	<u>2020</u>
Defined benefit obligations as at January 1	\$ (81,107)	(80,524)
Service cost and interest in the current period	(666)	(1,013)
Remeasurement of net defined benefit liabilities (assets)	231	(2,101)
Payment of plan benefits	12,469	2,531
Defined benefit obligations as at December 31	<u>\$ (69,073)</u>	<u>(81,107)</u>

(3) Changes in the fair value of pension plan assets

Changes in the fair value of defined benefit plan assets in 2021 and 2020 are explained below:

	<u>2021</u>	<u>2020</u>
Fair value of plan assets as at January 1	\$ 53,622	52,204
Interest income	160	390
Remeasurement of net defined benefit liabilities (assets)	787	1,714
Amount contributed to the plan	3,014	3,202
Payment of plan benefits	(12,469)	(2,532)
Plan settlement (through payment) or curtailment	-	(1,356)
Fair value of plan assets as at December 31	<u>\$ 45,114</u>	<u>53,622</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(4) Expenses recognized in profit or loss

The Company recognized the following expenses in profit or loss in 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Service costs for the current period	\$ 427	418
Net interest on net defined pension liabilities (assets)	79	205
Service costs for the previous period	(340)	-
	<u>\$ 166</u>	<u>623</u>
Operating costs	\$ 234	281
Selling and marketing expenses	59	75
General and administrative expenses	(232)	142
Research and development expenses	105	125
	<u>\$ 166</u>	<u>623</u>

(5) Actuarial assumptions

Key actuarial assumptions that the Company had made to determine the present value of defined benefit obligations as at the reporting date are as follows:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Discount rate	0.70%	0.30%
Future salary increase	2.00%	1.50%

The Company expects to contribute NT\$1,657 thousand to the defined benefit plan within one year from the 2021 reporting date.

The defined benefit plan has a weighted average duration of 10 years.

(6) Sensitivity analysis

When calculating present value of defined benefit obligations, the Company is required to exercise judgments and make estimates in order to determine actuarial assumptions as at the balance sheet date. These assumptions include the discount rate and future salary changes. Any changes in actuarial assumption may cause significant impacts on the Company's defined benefit obligations.

The following shows impact of changes in actuarial assumption on the present value of defined benefit obligations as at December 31, 2021 and 2020:

	<u>Impact on defined benefit obligations</u>	
	<u>0.25% increase</u>	<u>0.25% decrease</u>
December 31, 2021		
Discount rate	(1,808)	1,879
Future salary increase	1,850	(1,790)
December 31, 2020		
Discount rate	(2,132)	2,218
Future salary increase	2,185	(2,113)

Notes to standalone financial statements of Powertip Technology Corporation (continued)

The above sensitivity analysis assumes changes to one variable at a time while keeping all other variables constant. In reality, however, multiple assumptions may change at the same time and are related to each other. The sensitivity analysis was conducted using the same method as how net pension liabilities are presented in the balance sheet.

Methodology and assumption for current period's sensitivity analysis are consistent with those of the previous period.

2. Defined contribution plan

The Company's defined contribution plan complies with the Labor Pension Act, in which the Company contributes an amount equal to 6% of employees' salaries each month to employees' pension accounts held with the Bureau of Labor Insurance. Under this plan, the Company is freed of additional pension obligations (whether statutory or constructive) once it has contributed the designated amount to the Bureau of Labor Insurance.

Pension expenses recognized for the defined contribution plan in 2021 and 2020 were NT\$6,366 thousand and NT\$6,694 thousand, respectively, which have been contributed to the Bureau of Labor Insurance.

(XI) Income tax

1. Income tax expenses

(1) Below are details of the Company's income tax expenses for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current income tax expense	\$ 3,249	-
Deferred income tax expense		
Occurrence and reversal of temporary difference	<u>7,551</u>	<u>2,266</u>
Income tax expenses	<u>\$ 10,800</u>	<u>2,266</u>

(2) Below are details of income tax expenses recognized by the Company under other comprehensive income in 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Items likely to be reclassified into profit or loss:		
Exchange differences on translation of financial statements of foreign operations	<u>\$ (1,425)</u>	<u>1,610</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(3) Reconciliation of income tax expense and profit before tax for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Profit before tax	\$ 91,694	43,131
Income tax calculated by applying local tax rate of the country where the Company is located	18,339	8,626
Net investment gains/losses and tax-exempt income	(7,862)	(7,114)
Change in unrecognized deductible temporary difference	6,755	4,124
Change in unrecognized tax credits carried forward	(8,583)	(4,795)
Underestimations in past periods and others	2,151	1,425
	<u>\$ 10,800</u>	<u>2,266</u>

2. Deferred income tax assets and liabilities

(1) Items not recognized as deferred income tax liability: None.

(2) Items not recognized as deferred income tax asset

The following items were not recognized as deferred income tax asset:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Deductible temporary differences	\$ 79,351	72,596
Tax credits	-	8,583
	<u>\$ 79,351</u>	<u>81,179</u>

Unrecognized deductible temporary differences were mostly attributed to losses on subsidiary investments; the Company did not recognize deferred income tax assets because they are not very likely to be realized in the foreseeable future.

Tax credits, as defined in the Income Tax Act, are losses certified by the tax authority in the last 10 years that can be taken to reduce current year's taxable income. Tax credits were not recognized as deferred income tax assets because the Company is not very likely to generate adequate taxable income to offset tax credits in the future.

As at December 31, 2021, the Company did not have any tax credits that were not recognized as deferred income tax asset.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(3) Changes in recognized deferred income tax assets and liabilities in 2021 and 2020:

	Exchange differences on translation of financial statements of foreign operations	Others	Total
Deferred income tax liabilities:			
Balance as at January 1, 2021	\$ -	931	931
Debit/(credit) other	-	(931)	(931)
comprehensive income			
Balance as at December 31, 2021	<u>\$ -</u>	<u>-</u>	<u>-</u>
Balance as at January 1, 2020	\$ -	-	-
Debit/(credit) other	-	931	931
comprehensive income			
Balance as at December 31, 2020	<u>\$ -</u>	<u>931</u>	<u>931</u>

	Exchange differences on translation of financial statements of foreign operations	Tax credits and others	Total
Deferred income tax assets:			
Balance as at January 1, 2021	\$ 3,744	18,557	22,301
(Debit)/credit profit or loss	-	(8,482)	(8,482)
(Debit)/credit other	1,425	-	1,425
comprehensive income			
Balance as at December 31, 2021	<u>\$ 5,169</u>	<u>10,075</u>	<u>15,244</u>
Balance as at January 1, 2020	\$ 5,354	19,892	25,246
(Debit)/credit profit or loss	-	(1,335)	(1,335)
(Debit)/credit other	(1,610)	-	(1,610)
comprehensive income			
Balance as at December 31, 2020	<u>\$ 3,744</u>	<u>18,557</u>	<u>22,301</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

3. Assessment of income tax return

The Company's profit-seeking enterprise income tax returns have been certified by the tax authority up till 2019.

(XII) Capital and other equity items

1. Common share capital

A resolution was made during the Company's annual shareholder meeting dated June 16, 2009 to increase authorized capital to NT\$2,400,000 thousand; registration for the change of capital had not been completed as at December 31, 2021.

Authorized capital as at December 31, 2021 and 2020, was reported at NT\$2,200,000 thousand (13,500,000 shares were reserved to accommodate the conversion of employee warrants on both reporting dates).

2. Capital reserve

The following is a breakdown of the Company's capital reserve:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Change in net worth of equity-accounted associated companies and joint ventures	\$ 876	876
Change of ownership interest in subsidiaries	5,913	5,913
Difference between the actual price and book value of equity of subsidiaries acquired/disposed of	<u>1,113</u>	<u>1,113</u>
	<u>\$ 7,902</u>	<u>7,902</u>

According to The Company Act, balances of realized capital reserve can be distributed in shares or cash back to shareholders at the current shareholding percentage after reimbursing cumulative losses. The term "realized capital reserve" mentioned above includes shares issued at premium and gains from gifts. Pursuant to Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital reserves converted into share capital is capped at 10% of paid-up capital per year.

3. Retained earnings

A. The Company allocates year-end earnings, if any, in the following order:

- a. Taxation.
- b. Reimbursement of losses.
- c. 10% provision for statutory reserve, unless the balance of statutory reserve has accumulated to the same amount as the Company's paid-up capital.
- d. Provision for special reserve from current earnings in accordance with laws or relevant rules, which can be distributed only if reversed.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

- e. The balance that remains after a to d is added to unappropriated earnings from previous years and is available for earnings distribution. The entirety or a portion of the residual balance can be distributed to shareholders as profit sharing at the current shareholding percentage. The final payout ratio is subject to shareholder meeting resolution according to Article 240 of The Company Act. The board of directors can be authorized to distribute all or part of the dividends or profit sharing in cash, provided that the resolution is supported by more than half of attending directors in a board meeting where at least two-thirds of board members are present, and that the decision is reported in the upcoming shareholder meeting.

B. Dividend policy

The Company is still in the growth stage given its business activities and industry involvement, and therefore has significant needs for capital to support major investments and expansion plans in the future. For the consistency of dividend payouts, the board of directors may choose to pay more than 70% of distributable earnings as dividends, with no less than 20% of dividends being cash, after taking into consideration the Company's business prospects and capital availability. The board may also opt to pay a higher percentage or the entirety of dividends in cash if capital can be sourced through alternative means or at times of abundant liquidity, and thereby avoid over-diluting earnings per share.

(1) Statutory reserve

The Company may distribute statutory reserve in cash or in shares in the absence of cumulative losses, subject to resolution of a shareholders meeting; however, only the amount of statutory reserve that exceeds 25% of paid-up capital is distributable.

(2) Earnings appropriation

The Company resolved its 2020 and 2019 loss reimbursement proposals during the shareholder meetings held on July 15, 2021 and June 23, 2020, respectively, and no dividend was allocated to shareholders in either years. Details of the loss reimbursement resolved in shareholder meetings can be found on the Market Observation Post System.

On March 18, 2022, the board of directors proposed its 2021 earnings appropriation plan that includes the following dividends to be paid to shareholders:

Notes to standalone financial statements of Powertip Technology Corporation (continued)

	<u>2021</u>	
	<u>Stock dividends per share (NTD)</u>	<u>Amount</u>
Dividends distributed to ordinary shareholders:		
Cash	\$ 0.19	<u>30,813</u>

(XIII) Earnings per share

1. Basic earnings per share

Basic earnings per share of the Consolidated Entity for 2021 and 2020 were calculated based on net income attributable to common shareholders of the Company totaling NT\$80,894 thousand and NT\$40,865 thousand, respectively, and weighted average outstanding common shares of 162,173,000. Detailed calculations are explained below:

	<u>2021</u>	<u>2020</u>
Current net income	<u>\$ 80,894</u>	<u>40,865</u>
Weighted average outstanding shares (thousand shares)	<u>162,173</u>	<u>162,173</u>
Basic earnings per share (NTD)	<u>\$ 0.50</u>	<u>0.25</u>

2. Diluted earnings per share

Diluted earnings per share for 2021 and 2020 were calculated based on net income attributable to common shareholders of the Company totaling NT\$80,894 thousand and NT\$40,865 thousand, respectively, and weighted average outstanding common shares after adjusting for dilutive effect of all potential common shares, which were 162,338,000 and 162,173,000 shares in the respective years. Detailed calculations are explained below:

	<u>2021</u>	<u>2020</u>
Current net income	<u>\$ 80,894</u>	<u>40,865</u>
Weighted average outstanding shares (thousand shares)	<u>162,173</u>	<u>162,173</u>
Dilutive effect of potential common shares		
Effects of employee remuneration paid in shares	<u>165</u>	<u>-</u>
Weighted average outstanding shares (after adjusting for dilutive effect of potential common shares)	<u>162,338</u>	<u>162,173</u>
Diluted earnings per share (NTD)	<u>\$ 0.50</u>	<u>0.25</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(XIV) Revenue from contracts with customers

1. Breakdown of income

	<u>2021</u>	<u>2020</u>
Main regions and markets:		
Taiwan	\$ 289,129	209,507
USA	234,754	192,772
Germany	486,848	303,334
Sweden	145,975	144,963
Other countries	611,136	570,873
	<u>\$ 1,767,842</u>	<u>1,421,449</u>
Key products/services:		
LCD display modules	\$ 1,673,341	1,331,072
Others	94,501	90,377
	<u>\$ 1,767,842</u>	<u>1,421,449</u>

2. Contract balance

Please refer to Note 6(3) for disclosures on notes and accounts receivable and impairment.

(XV) Remuneration to employees, directors, and supervisors

After the re-election of directors during the shareholder meeting held on July 15, 2021, an Audit Committee consisting entirely of independent directors was assembled to replace supervisors, and the Articles of Incorporation were amended to reflect the change.

Pursuant to the revised Articles of Incorporation, profits concluded from a financial year are subject to employee remuneration of no less than 5% and director remuneration of no more than 1%. However, profits must first be taken to offset against cumulative losses if any. Employee remuneration, as mentioned above, can be paid in shares or cash to employees of affiliated companies that satisfy certain criteria. This certain criteria is determined by the board of directors.

Pursuant to the former Articles of Incorporation, profits concluded from a financial year are subject to employee remuneration of no less than 5% and director/supervisor remuneration of no more than 1%. However, profits must first be taken to offset against cumulative losses if any. Employee remuneration, as mentioned above, can be paid in shares or cash to employees of affiliated companies that satisfy certain criteria.

The Company has estimated employees' remuneration at NT\$2,721 thousand and directors'/supervisors' remuneration at NT\$544 thousand for 2021. Both figures were estimated by multiplying profit before tax and employee/director/supervisor remuneration with the respective percentages stated in the Company's Articles of Incorporation, and have been recognized as operating costs or operating expenses for 2021.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

No employee/director/supervisor remuneration was estimated for 2020 due to cumulative losses.

The amounts of employee, director, and supervisor remuneration resolved in the above board meeting were indifferent from the amounts estimated in the Company's 2021 standalone financial statements.

(XVI) Financial instruments

1. Credit risk

(1) Amount of maximum credit risk exposure

For financial assets, the book value represents the maximum credit risk exposure.

(2) Concentration of credit risk

There was no significant concentration of sales to any single customer as the Company sells to a broad customer base and diverse locations. As a result, there was no significant concentration of credit risk in accounts receivable. The Company also monitors customers' financial position on a regular basis as a means to reduce credit risk, and generally does not require collaterals from customers.

(3) Credit risk of receivables

For credit risk information on notes receivable and accounts receivable, please refer to Note 6(3).

Other financial assets carried at amortized cost include other receivables and time deposits. The Company measures loss provisions based on 12 month expected credit loss for the above financial assets that are deemed to be of low risk. No impairment loss was expected on the above proceeds as at December 31, 2021 and 2020.

2. Liquidity risk

The following chart shows contract maturity date for financial liabilities, including the effect of estimated interest.

	Book value	Contractual cash flow	Within 1 year	1-2 years	More than 2 years
December 31, 2021					
Non-derivative financial liabilities					
Notes and accounts payable	\$ 137,870	(137,870)	(137,870)	-	-
Accounts payable - related parties	128,467	(128,467)	(128,467)	-	-
Long-term borrowings (including current portion maturing in one year)	124,862	(126,673)	(39,388)	(33,424)	(53,861)
Other payables	48,730	(48,730)	(48,730)	-	-
Guarantee deposits received	138	(138)	-	-	(138)
Lease liabilities (presented as other current liabilities)	379	(381)	(381)	-	-
	\$ 440,446	(442,259)	(354,836)	(33,424)	(53,999)

Notes to standalone financial statements of Powertip Technology Corporation (continued)

	<u>Book value</u>	<u>Contractual cash flow</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2020					
Non-derivative financial liabilities					
Notes and accounts payable	\$ 89,220	(89,220)	(89,220)	-	-
Accounts payable - related parties	208,793	(208,793)	(208,793)	-	-
Long-term borrowings	129,733	(132,898)	(1,606)	(69,330)	(61,962)
Other payables	45,011	(45,011)	(45,011)	-	-
Guarantee deposits received	214	(214)	-	-	(214)
Lease liabilities (presented as other current liabilities)	1,126	(1,142)	(761)	(381)	-
	<u>\$ 474,097</u>	<u>(477,278)</u>	<u>(345,391)</u>	<u>(69,711)</u>	<u>(62,176)</u>

The Company does not expect cash flows in the maturity analysis to occur at any earlier time, or in amounts that differ significantly, except for certain long-term borrowings that may be repaid early depending on capital availability.

3. Exchange rate risk

(1) Exchange rate risk exposure

The Company had the following financial assets and liabilities that were exposed to significant foreign currency/exchange rate risk:

	Unit: thousands of foreign currency					
	2021.12.31			2020.12.31		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets						
Monetary items						
USD	\$ 13,632	27.730	378,015	12,679	28.530	361,732
Financial liabilities						
Monetary items						
USD	\$ 6,537	27.730	181,271	8,922	28.530	254,545

(2) Sensitivity analysis

The Company's exchange rate exposure arises primarily from the conversion of cash, cash equivalents, notes receivable, accounts receivable, other receivables, borrowings, accounts payable, and other payables denominated in foreign currencies. Conversion of foreign currency-denominated amounts gives rise to gains/losses on exchange. The following analysis shows the effect on profit (loss) before tax for 2021 and 2020 if foreign currencies weakened/strengthened against NTD by 5% as at December 31, 2021 and 2020, using the same basis of comparison while all other factors remained unchanged:

	<u>2021</u>	<u>2020</u>
USD (relative to NTD)		
Strengthened by 5%	\$ 9,837	5,359
Weakened by 5%	(9,837)	(5,359)

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(3) Exchange gain/loss on monetary items

Due to the extensive variety of transaction currencies used, the Company has opted to disclose gains (losses) on exchange of monetary items on a collective basis. Gains (losses) (including realized and unrealized) incurred on exchange of foreign currencies in 2021 and 2020 are explained below:

	<u>2021</u>	<u>2020</u>
Gain (loss) on exchange	<u>\$ 4,225</u>	<u>(845)</u>

4. Interest rate analysis

Interest rate risk exposure concerning the Company's financial assets and financial liabilities has been explained as part of liquidity risk management in this footnote.

Sensitivity analysis has been prepared based on interest rate risk exposures of derivatives and non-derivatives as at the reporting date. For assets and liabilities that bear floating interests, the analysis is conducted by assuming that the amount of assets and liabilities outstanding as at the reporting date remained outstanding throughout the entire year. Interest rate sensitivity analyses are reported to the management by applying a variance of 0.25% above and below. This variance conforms with the management's expectation about the possible and reasonable range of interest rate variation.

If interest rate increased/decreased by 0.25% while other variables remained unchanged, the Company's profit before tax would have increased/decreased by NT\$478 thousand and NT\$437 thousand in 2021 and 2020, respectively. This potential change is primarily the result of the Company's floating-interest rate borrowings and demand deposits.

5. Fair value information

(1) Category and fair value of financial instruments

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value on a recurring basis. Book value and fair value of financial assets and liabilities are shown below (categorized by level of fair value input; however, it is not required to disclose fair value information for lease liabilities and financial instruments that are not subject to fair value assessment and where the book value resembles the fair value):

Notes to standalone financial statements of Powertip Technology Corporation (continued)

2021.12.31					
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets carried at amortized cost					
Cash and cash equivalents	\$ 317,880	-	-	-	-
Notes and accounts receivable, net (including related parties)	270,383	-	-	-	-
Other receivables	5,082	-	-	-	-
Other financial assets- - current	2,500	-	-	-	-
Guarantee deposits paid (presented as other non-current assets)	2,106	-	-	-	-
Total	\$ 597,951	-	-	-	-
Financial liabilities carried at amortized cost					
Notes and accounts payable (including related parties)	\$ 266,337	-	-	-	-
Other payables	48,730	-	-	-	-
Long-term borrowings (including current portion maturing in one year)	124,862	-	-	-	-
Guarantee deposits received (presented as deferred income tax liabilities and others)	138	-	-	-	-
Lease liabilities (current)	379	-	-	-	-
Total	\$ 440,446	-	-	-	-
2020.12.31					
	Book value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Foreign non-listed (non-OTC traded) shares	\$ 1,023	-	-	1,023	1,023
Financial assets carried at amortized cost					
Cash and cash equivalents	304,878	-	-	-	-
Notes and accounts receivable, net (including related parties)	170,451	-	-	-	-
Other receivables	4,589	-	-	-	-
Other financial assets- - current	2,500	-	-	-	-
Guarantee deposits paid (presented as other non-current assets)	961	-	-	-	-
Subtotal	483,379	-	-	-	-
Total	\$ 484,402	-	-	1,023	1,023
Notes and accounts payable (including related parties)	\$ 298,013	-	-	-	-
Other payables	45,011	-	-	-	-
Long-term borrowings	129,733	-	-	-	-
Guarantee deposits received (presented as deferred income tax liabilities and others)	214	-	-	-	-
Lease liabilities (current and non-current)	1,126	-	-	-	-
Total	\$ 474,097	-	-	-	-

Notes to standalone financial statements of Powertip Technology Corporation (continued)

There was no change of fair value input in 2021 and 2020.

(2) Fair value assessment techniques for financial instruments carried at fair value

Non-derivative instruments

Financial instruments that are openly quoted in an active market will have fair value determined at the openly quoted price. Fair values of public-listed (OTC-traded) equity instruments and debt instruments openly quoted in active markets are determined based on market prices quoted on major exchange and OTC center for actively traded government bonds.

A financial instrument is deemed to be openly quoted on an active market if reliable quotations (that are representative of transactions actually and frequently taking place in a fair market) can be obtained from stock exchange, brokers, underwriters, industry associations, pricing institutions, or the authority on a timely and frequent basis. A market is deemed inactive if it fails to satisfy the above conditions. In general, increasing or excessive bid-ask spread and lack of transaction volume are considered signs of inactive market.

Except for financial instruments traded in active markets, as described above, fair values of all other financial instruments are obtained either by applying valuation techniques or by making reference to counterparties' quotations. Fair value by valuation technique may be obtained by making reference to the prevailing fair value of financial instruments that share similar terms and characteristics or using valuation techniques such as the discounted cash flow method in conjunction with market information available as at the balance sheet date.

(3) Change between level 1 and level 2

There had been no change in levels of fair value input when assessing financial instruments in 2021 and 2020.

(4) Details of level 3 changes

	Equity instruments without open quotation at fair value through other comprehensive income
January 1, 2021	\$ 1,023
Total gains or losses recognized in other comprehensive income	-
Disposal	(1,023)
December 31, 2021	<u>\$ -</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

	Equity instruments without open quotation at fair value through other comprehensive income
January 1, 2020	\$ 1,023
Total gains or losses recognized in other comprehensive income	-
December 31, 2020	<u><u>\$ 1,023</u></u>

The above total gains or losses are presented as "Unrealized gains (losses) on valuation of financial assets at fair value through other comprehensive income."

(XVII) Financial risk management

1. Summary

Use of financial instrument exposes the Company to the following risks:

- (1) Credit risk
- (2) Liquidity risk
- (3) Market risk

This footnote discloses exposure, assessment, and the Company's management goals, policies, and procedures for the abovementioned risks. For further quantitative disclosures, please see notes to the standalone financial statements.

2. Risk management framework

The board of directors has been fully empowered to establish and supervise implementation of risk management framework within the Company. The management is responsible for the development and control of risk management policies within the Company, and reports to the board of directors on a regular basis.

The Company has established its risk management policy to identify and analyze the risks associated with business activities, to set appropriate risk limits and controls, and to monitor risk exposures as well as compliance with various risk limits. The risk management policy and system are regularly examined to reflect changes in market condition and the Company's operations. The Company develops a disciplined and constructive control environment through training, management guidelines, and operating procedures, so that all employees are able to comprehend their roles and duties.

The board of directors regularly reviews compliance of risk management policies and procedures within the Company, as well as the appropriateness of the risk management framework that the Company has adopted in response to the risks encountered. The Company has internal audit personnel in place to assist the board of directors with supervisory duties. These personnel conduct regular and ad-hoc reviews

Notes to standalone financial statements of Powertip Technology Corporation (continued)

over existing risk management controls and procedures, and report their findings to the board of directors.

3. Credit risk

Credit risk refers to the risk of financial loss the Company may incur due to its customers or financial instrument counterparties being unable to fulfill contractual obligations. Credit risk mainly arises from customers' accounts receivable.

(1) Accounts receivable and other receivables

Credit risk exposure of the aforementioned accounts varies from customer to customer. The management also takes into consideration common factors including default risk of customers' industries and countries, as these risks are also likely to affect credit risk. The Company monitors customers' financial position and recoverability of accounts receivable to minimize credit risks.

The Company has established its own credit policy, which requires every new customer to have credit rating analyzed before being awarded standard payment and delivery terms. The Company also obtains timely data from external sources, such as contact with rating agencies and banking partners, as part of its review. The Company assigns credit limits to customers on a case-by-case basis; these limits represent the maximum amount of transactions that can be undertaken on credit without the management's approval. These limits are reviewed on a regular basis. Customers that do not meet the Group's basic credit rating requirements may transact with the Company only on a prepaid basis.

(2) Investments

Credit risks associated with bank deposit and other financial instruments are assessed and monitored by the Company's Treasury Department. The Company transacts and deals only with banks of strong credit standing and financial institutions of investment grade and above, hence there is no material concern in terms of contract fulfillment or credit risk exposure.

(3) Guarantees

According to internal policies, the Company may only offer financial guarantee to subsidiaries in which it holds more than 50% voting interest and companies it has business dealings with.

4. Liquidity risk

Liquidity risk represents risk of the Company being unable to settle financial liabilities with cash or other financial assets, or being unable to fulfill relevant obligations.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

The Company maintains adequate position of cash and cash equivalents to support corporate operations and to mitigate effects of cash flow variation. The management constantly monitors use of bank limits and makes sure that borrowing terms are duly complied.

Bank borrowing constitutes a main source of liquidity for the Company. The Company had undrawn short-term banking limits of NT\$142,742 thousand and NT\$148,530 thousand as at December 31, 2021 and 2020.

5. Market risk

Market risk refers to the effect a change of market price may have on the income or value of financial instruments held on hand, whether it is an exchange rate instrument, interest rate instrument, equity instrument or otherwise. The goal of market risk management is to control market risk exposure within a tolerable range while optimizing investment returns.

(1) Exchange rate risk

The Company is exposed to exchange rate risks arising from sales, purchases, and borrowings that are denominated in non-functional currencies. NTD represents the Company's main functional currency; transactions are also denominated in currencies such as USD and RMB.

For monetary assets and liabilities denominated in other foreign currencies, the Company buys in or sell off foreign currencies at the spot exchange rate whenever a short-term mismatch arises, and in doing so ensures that the net exposure is kept within the tolerable level.

(2) Interest rate risk

The Company constantly monitors changes in market interest rate and maintains close relationship with financial institutions to secure the most favorable rate. Short-term, medium-term, and long-term credit limits are drawn in a manner that minimizes interest expenses.

(XVIII) Capital management

The Company makes capital plans after taking into consideration the characteristics of the given industry, future prospects of the Company, and changes in the external environment. Capital management ensures that the Company has the financial resources and operational plans needed to support future working capital, capital expenditure, research and development projects, debt repayment, and dividend payment. The management primarily uses debt-to-equity ratio and interest-bearing-liabilities-to-equity ratio to determine the optimal capital structure for the Company. The management also strives to optimize debt and

Notes to standalone financial statements of Powertip Technology Corporation (continued)

equity balances while maintaining strong capital structure for improvement to shareholders' returns.

The Company regularly examines its debt-to-equity ratio as a way to manage capital. Capital of the Company is represented by "Total equity" shown on the balance sheet, which equals total assets less total liabilities.

Debt-to-equity ratio as at the reporting date is shown below:

	<u>2021.12.31</u>	<u>2020.12.31</u>
Total liabilities	\$ 492,830	519,966
Total equity	1,554,403	1,478,827
Interest-bearing liabilities	124,862	129,733
Debt-to-equity ratio	32%	35%
Interest-bearing-liabilities-to-equity ratio	8%	9%

There had been no change to the Company's capital management approach as at December 31, 2021.

(XIX) Non-cash investing and financing activities

Non-cash investing and financing activities in 2021 and 2020 included a capitalization of debt claims into subsidiary's share capital, and an acquisition of right-of-use asset through lease. Please see Notes 6(6) and 6(8) for details.

Reconciliation of liabilities associated with financing activities is explained below:

	<u>2021.1.1</u>	<u>Cash flow</u>	<u>2021.12.31</u>
Long-term borrowings (including current portion maturing in one year)	\$ 129,733	(4,871)	124,862
Lease liabilities	1,126	(747)	379
Total liabilities relating to financing activities	<u>\$ 130,859</u>	<u>(5,618)</u>	<u>125,241</u>

	<u>2020.1.1</u>	<u>Cash flow</u>	<u>2020.12.31</u>
Long-term borrowings (including current portion maturing in one year)	\$ 180,000	(50,267)	129,733
Lease liabilities	1,857	(731)	1,126
Total liabilities relating to financing activities	<u>\$ 181,857</u>	<u>(50,998)</u>	<u>130,859</u>

VII. Related party transactions

(I) Name of related party and relationship

Subsidiaries and related parties that transacted with the Company during the period covered by the standalone financial statements:

Notes to standalone financial statements of Powertip Technology Corporation (continued)

<u>Name of related party</u>	<u>Relationship with the Consolidated Entity</u>
Powertip Technology Inc. (USA)	Subsidiary of the Company
Powertip Technology Ltd. (H.K.)	Subsidiary of the Company
America Technology Corp.	Subsidiary of the Company
Ta Cheng International Investing Co., Ltd.	Subsidiary of the Company
Ta Ho International Investing Co., Ltd.	Subsidiary of the Company
Ta Yang International Investing Co., Ltd	Subsidiary of the Company
Powertip Technology (C.I.) Corp.	Subsidiary of the Company
Jiangsu Jiuzheng Photoelectric Co., Ltd.	Subsidiary of the Company
Dongguan Jiuzheng Photoelectric Co., Ltd.	Subsidiary of the Company
Powertip Image Corp.	Associated company of the Company
Powertip Japan Co.,Ltd.	Other related party of the Company
Mr. Shih-Yue Wang	Chairman of the Company

(II) Significant transactions with related parties

1. Merchanting trade

In 2021 and 2020, the Company sold raw materials, semi-finished goods, and factory supplies to subsidiaries, and had them processed and produced before buying back the finished goods in the form of a merchanting trade. The finished goods were then sold to customers. The sale of raw materials and buyback of finished goods had been eliminated when preparing the 2021 and 2020 financial statements, and were not treated as purchase or sale.

Raw materials and semi-finished goods are sold to subsidiaries at cost, and accounts receivable that arise as a result can be offset against accounts payable from purchase.

2. Operating revenues

Material sales to related parties and amounts:

	2021	2020
Subsidiary	<u>\$ 195,602</u>	<u>176,254</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

The Company's sales transactions are priced based on volume or location. There is no significant difference in the price of goods sold to related and unrelated parties, except for some subsidiaries where selling price is incomparable due to differences of the products involved. Collection term for sales to related parties is not significantly different from ordinary sales.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

3. Purchase

Purchases made by the Company from related parties:

	<u>2021</u>	<u>2020</u>
Subsidiary - Jiangsu Jiuzheng Photoelectric Co., Ltd.	<u>\$ 1,366,266</u>	<u>1,058,096</u>

There is no significant difference in the price of purchases made from related and unrelated parties, except for some subsidiaries where purchase price is incomparable due to the special nature and differences of the products involved.

4. Related party payables

Details of related party payables are shown below:

<u>Presentation account</u>	<u>Type of related party</u>	<u>2021.12.31</u>	<u>2020.12.31</u>
Accounts payable	Subsidiary	<u>\$ 128,467</u>	<u>208,793</u>

5. Leases

For the years ended 2021 and 2020, the Company generated NT\$848 thousand and NT\$525 thousand of rental income from the 6-year plant, equipment, and office premise leasing agreement signed with associated companies, and collected NT\$138 thousand and NT\$214 thousand of rental deposit, respectively, which were presented as guarantee deposits received and others. Furthermore, NT\$284 thousand and NT\$1,143 thousand of proceeds were paid/collected on behalf of associated companies for electricity, networking, and management expenses incurred on the leased plant, equipment, and office premises.

6. Property transaction

The Company had unrealized deferred gains of NT\$553 thousand and NT\$754 thousand as at December 31, 2021 and 2020, from contributing machinery and equipment as capital in-lieu in a subsidiary. In addition, the Company sold NT\$300 thousand worth of computer equipment to an associated company in 2020, and the entirety of the proceeds has been collected.

7. Related party receivables

Related party receivables that arose from the above transactions and other collections and payments made on behalf of related parties are explained below:

<u>Presentation account</u>	<u>Type of related party</u>	<u>2021.12.31</u>	<u>2020.12.31</u>
Accounts receivable	Subsidiary	\$ 1,248	3,237
Other receivables	Subsidiary	673	656
Other receivables	Associated companies	<u>91</u>	<u>124</u>

Notes to standalone financial statements of Powertip Technology Corporation (continued)

\$ 2,012 4,017

(III) Transactions involving key management personnel

1. Compensation to key management personnel

Compensation to key management personnel includes the following:

	2021	2020
Short-term employee benefits	\$ 8,628	8,509

2. Offering of guarantees

The Company's short-term and long-term credit facilities as at December 31, 2021 and 2020, were guaranteed by key management personnel.

VIII. Pledged assets

Book value of assets pledged by the Company is explained below:

Name of asset	Collateral	2021.12.31	2020.12.31
Time deposit (presented as other financial assets - current)	Security for import customs duty	\$ 2,500	2,500
Land	Long-term borrowings	184,079	184,079
Buildings	Long-term borrowings	253,747	264,267
		\$ 440,326	450,846

IX. Major contingent liabilities and unrecognized contractual commitments

(I) L/C issued but undrawn by the Company:

	2021.12.31	2020.12.31
L/C issued but undrawn	\$ 4,988	-

X. Losses from major disasters: None.

XI. Major post-balance sheet date events: None.

XII. Others

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Summary of employee benefit, depreciation, depletion, and amortization expenses by function:

Nature	Function	2021			2020		
		Presented as operating cost	Presented as operating expense	Total	Presented as operating cost	Presented as operating expense	Total
Employee benefit expenses							
Salary expenses		57,485	68,133	125,618	62,179	68,035	
Labor/health insurance premium		6,840	7,299	14,139	7,226	7,217	
Pension expense		3,086	3,446	6,532	3,349	3,968	
Directors' compensation		-	1,064	1,064	-	295	
Other employee benefit expenses		4,072	3,260	7,332	4,449	3,335	
Depreciation expenses		18,718	3,298	22,016	16,572	4,247	
Amortization expenses		-	788	788	-	511	

Additional information on employee size and employee benefit expenses for 2021 and 2020 is presented below:

	<u>2021</u>	<u>2020</u>
Employee count	<u>221</u>	<u>236</u>
No. of directors without concurrent position as employee	<u>7</u>	<u>6</u>
Average employee benefit expenses	<u>\$ 718</u>	<u>695</u>
Average employee salary expenses	<u>\$ 587</u>	<u>566</u>
Adjustments to average employee salary expenses	<u>3.71%</u>	<u>(0.35)%</u>
Supervisors' compensation	<u>\$ 169</u>	<u>65</u>

(III) Information regarding the Company's salary and compensation policies (including directors, supervisors, managers, and staff):

1. Compensation for staff and managers comprises two parts: fixed salary and variable salary. Fixed salary is paid on a monthly basis irrespective of profitability, and is determined based on work duties and job grades. Variable salary includes festive bonus, performance bonus, and employee remuneration. Variable salary is determined after taking into consideration the overall environment, the market level, corporate profitability, individual performance evaluation, work duties, and contribution to corporate operations. It is set at a level that adequately reflects work performance of individual employees. The level of variable compensation is set in line with current

Notes to standalone financial statements of Powertip Technology Corporation (continued)

year's earnings, and is therefore highly correlated with the Company's business performance.

- Compensations for the Company's directors and supervisors are determined in accordance with the Articles of Incorporation, and take into account their individual participation and contribution to the Company's operations. Aside from business performance, the Company also follows a well-established set of compensation standards, structure, and system that is designed in reference to peers and TWSE/TPEX listed companies. The compensation standards, structure, and systems are proposed by the Remuneration Committee and resolved by the board of directors.
- All salaries and compensations paid by the Company are rigorously reviewed. Compensations to managers, directors, and supervisors are reviewed and resolved by the Remuneration Committee and the board of directors to ensure that they do not give rise to major risks in the future.

XIII. Other disclosures

(I) Information relating to significant transactions

Significant transactions in 2021 that require further disclosures under Regulations Governing the Preparation of Financial Reports by Securities Issuers are as follows:

- Loans to external parties: None.
- Endorsement/guarantee to external parties: None.
- End-of-period holding position of marketable securities (excluding investment in subsidiaries, associated companies, and joint ventures):

Unit: thousand shares

Holder	Name and type of securities	Relationship with the securities issuer	Presentation account	End of period				
				No. of shares	Book value	Shareholding percentage	Fair value	Remarks
The Company	Everest Technology Inc.	None	Financial assets at fair value through other comprehensive income - non-current	3,730	\$ -	5.49 %	-	

- Cumulative purchase or sale of any single marketable security that amounts to NT\$300 million or more than 20% of paid-up capital:

Unit: NTD thousands

Name of buyer / seller	Name and type of securities	Presentation account	Counterparty	Relationship	Opening		Purchase		Sale			End of period		
					No. of shares	Amount	No. of shares	Amount (Note 1)	No. of shares	Selling price	Book cost (Note 2)	Gain / loss on disposal (Note 2)	No. of shares	Amount
Jiangsu Jiuzheng	Flexi investment (structured instrument)	Financial assets at fair value through profit or loss - current	ICBC		-	26,214 (CNY6,000)	-	141,556 (CNY32,400)	-	-	167,770 (CNY38,400)	-	-	- (CNY-)

Note 1: Converted into NTD using exchange rate as at the reporting date (NT:4.369/CNY).

Note 2: The Company held the instrument to maturity for interest income, and therefore incurred no gain or loss on disposal.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

5. Acquisition of real estate amounting to NT\$300 million or more than 20% of paid-up capital: None.
6. Disposal of real estate amounting to NT\$300 million or more than 20% of paid up capital: None.
7. Sales and purchases with related parties amounting to NT\$100 million or more than 20% of paid-up capital:

Name of buyer (seller)	Name of counterparty	Relationship	Transaction summary				Distinctive terms of trade and reasons		Notes and accounts receivable (payable)		Remarks
			Purchase (sale)	Amount	As a percentage to total purchases (sales)	Loan tenor	Unit price	Loan tenor	Balance	As a percentage of total notes and accounts receivable (payable)	
The Company	Jiangsu Jiuzheng	100%-held subsidiary - Powertip C.I. holds 100% interest in the subsidiary	Purchase	1,366,266	93 %	No significant difference from ordinary transaction	Incomparable due to the special nature and differences of the products involved	-	Accounts payable (128,467)	(48)%	Note 1 and Note 2
Jiangsu Jiuzheng	The Company	100%-held subsidiary - Powertip C.I. holds 100% interest in the subsidiary	(Sale)	(1,366,266)	(89) %	No significant difference from ordinary transaction	Incomparable due to the special nature and differences of the products involved	-	Accounts receivable 128,467	79%	Note 1 and Note 2
The Company	Powertip USA	100%-held subsidiary of the Company	(Sale)	(101,716)	(6) %	No significant difference from ordinary transaction	No significant difference from ordinary transaction	-	Accounts receivable -	-%	Note 2
Powertip USA	The Company	100%-held subsidiary of the Company	Purchase	101,716	100 %	No significant difference from ordinary transaction	No significant difference from ordinary transaction	-	Accounts payable -	-%	Note 2

Note 1: Accounts payable by Jiangsu Jiuzheng to the Company includes purchase and sales transactions that have been offset in a merchandising trade.
 Note 2: The above transactions have been fully eliminated when preparing consolidated financial statements.

8. Related party receivables amounting to NT\$100 million or 20% of paid-up capital or above:

Companies presented as receivables	Name of counterparty	Relationship	Balance of related party receivables	Turnover rate	Overdue balance of related party receivables		Amount of related party receivables collected after the balance sheet date	Loss provisions provided
					Amount	Treatment		
Jiangsu Jiuzheng	The Company	Corporate shareholder with 100% holding interest	128,467	8.10	-	Debt claims are offset against debt obligations each month with proceeds collected or paid depending on capital availability	274,503	-

Note 1: Data as at the reporting date.
 Note 2: The above transactions have been fully eliminated when preparing consolidated financial statements.

9. Derivative transactions: None.

(II) Information on business investments:

Information about the Company's business investments in 2021 (excluding Mainland investees):

Unit: thousands of NTD or foreign currency/thousand shares

Name of investor	Name of investee	Location	Main business activities	Sum of initial investment		Period-end holding position			Current period profit / loss of the investee	Investment gains / losses recognized in the current period	Remarks
				Current period-end (Note)	Previous period-end (Note)	No. of shares	Percentage	Book value (Note)			
The Company	Powertip HK	Hong Kong	Processing and manufacturing of LCD display modules	166,570	166,570	39,500	100.00%	20,478	9,142	9,142	Subsidiary (Note 2)
The Company	Powertip USA	California, USA	Trading of LCD display modules, electronic parts, and computer peripherals	53,135	53,135	155	100.00%	65,003	358	358	Subsidiary (Note 2)
The Company	ATC Samoa	Samoa	Holding company	657,506	657,506	23,711	100.00%	584,730	(98,640)	(98,640)	Subsidiary

Notes to standalone financial statements of Powertip Technology Corporation (continued)

Name of investor	Name of investee	Location	Main business activities	Sum of initial investment		Period-end holding position			Current period profit / loss of the investee	Investment gains / losses recognized in the current period	Remarks
				Current period-end (Note)	Previous period-end (Note)	No. of shares	Percentage	Book value (Note)			
				(US\$23,711)	(US\$23,711)					(Note 2)	
The Company	Powertip Image Corp.	Taichung City	Manufacturing of electronic parts and optical instruments	50,466	50,466	7,911	23.77%	133,558	142,796	25,445	Equity-accounted investee
The Company	Ta Cheng	Taichung City	General investments	27,600	27,600	2,760	100.00%	24,923	4,359	4,359	Subsidiary (Note 2)
The Company	Ta Ho	Taichung City	General investments	27,600	27,600	2,760	100.00%	24,925	4,359	4,359	Subsidiary (Note 2)
The Company	Ta Yang	Taichung City	General investments	20,100	20,100	2,010	100.00%	18,041	3,149	3,149	Subsidiary (Note 2)
Less: unrealized gain/loss on associated companies								(1,129)			
								<u>870,529</u>			
ATC Samoa	Powertip C.I.	Cayman Islands	Holding company	656,591 (US\$23,678)	656,591 (US\$23,678)	23,678	100.00%	590,205 (US\$21,284)	(106,512) (US\$3,796)	Recognized according to the shareholding percentage of ATC Samoa	Investee accounted by subsidiary using the equity method (Note 2)
Ta Cheng	Powertip Image Corp.	Taichung City	Manufacturing of electronic parts and optical instruments	27,500	27,500	1,367	4.07%	22,869	142,796	Recognized according to the shareholding percentage of Ta Cheng	Investee ac
Ta Ho	Powertip Image Corp.	Taichung City	Manufacturing of electronic parts and optical instruments	27,500	27,500	1,367	4.07%	22,869	142,796	Recognized according to the shareholding percentage of Ta Ho	Investee ac
Ta Yang	Powertip Image Corp.	Taichung City	Manufacturing of electronic parts and optical instruments	19,873	19,873	988	2.94%	16,518	142,796	Recognized according to the shareholding percentage of Ta Yang	Investee ac
Powertip Image Corp.	Powertip Image (Samoa)	Samoa	Holding company	61,196	61,196	1,497	100.00%	177,671	43,633 (US\$1,555)	Recognized according to the shareholding percentage of Powertip Image Corp.	Subsidiary that accounts for investee using the equity method
Powertip Image Corp.	Chin Yue	Taichung City	General investments	97,000	97,000	9,809	100.00%	101,647	15,389	Recognized according to the shareholding percentage of Powertip Image Corp.	Subsidiary
Powertip Image Corp.	Chin Hung	Taichung City	General investments	57,500	57,500	5,825	100.00%	73,171	11,113	Recognized according to the shareholding percentage of Powertip Image Corp.	Subsidiary
Chin Yue	Do Electronic	Samoa	Holding company	73,485 (US\$2,650)	73,485 (US\$2,650)	2,650	58.14%	1,033,300	26,600 (US\$948)	Recognized according to the shareholding percentage of Chun Yue	Subsidiary
Chin Hung	Do Electronic	Samoa	Holding company	52,909 (US\$1,908)	52,909 (US\$1,908)	1,908	41.86%	74,396	26,600 (US\$948)	Recognized according to the shareholding percentage of Chin Hung	Subsidiary

Note 1: Converted into NTD using exchange rate as at the reporting date (NT:27.73 US).

Note 2: The above transactions have been fully eliminated when preparing consolidated financial statements.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

(III) Information on Mainland investments:

1. Name, main business activities, and relevant information of Mainland investments:

Unit: thousands of NTD/foreign currency

Name of Mainland investee	Main business activities	Paid-up capital (Note 4)	Method of investment	Opening cumulative balance of investment capital invested from Taiwan (Note 4)	Investment capital contributed or recovered during the current period		Closing cumulative balance of investment capital invested from Taiwan (Note 4)	Current period profit / loss of the investee	The Company's direct or indirect holding percentage	Investment gains / losses recognized in the current period (Note 1)	Closing investment book value (Note 4)	Investment gains recovered to date
					Invested	Recovered						
Jiangsu Jiuzheng	Processing of LCD devices and electronic components	637,790 (US\$23,000)	Indirect investment through ATC Samoa	637,790 (US\$23,000)	-	-	637,790 (US\$23,000)	(106,540) ((US\$3,780))	100.00%	(106,540) ((US\$3,797))	594,476 (US\$21,438)	-
Dongguan Jiuzheng	Processing and manufacturing of LCD devices and electronic components	35,790 (HK\$10,000)	Indirect investment through Powertip HK (Note 5)	-	-	-	-	2,463 (HK\$678)	100.00%	2,463 (HK\$678)	8,232 (HK\$2,300)	-
Jiangsu Powertip	Manufacturing and processing of molds	332,760 (US\$12,000) (Note 6)	Indirect investment by associated company - Powertip Image Corp. through Powertip Image (Samoa) and Do Electronic (Note 8)	167,905 (US\$6,055)	-	-	167,905 (US\$6,055)	63,133 (US\$2,250)	34.85% of shareholding is indirectly held by the Company's equity-accounted investee	Recognized according to the shareholding percentages of Powertip Image (Samoa) and Do Electronic	Recognized according to the shareholding percentages of Powertip Image (Samoa) and Do Electronic	-

2. Approved limit on Mainland investments:

Unit: thousands of foreign currency

Company name	Closing cumulative balance of investment capital transferred from Taiwan into the Mainland	Investment limit authorized by the Investment Commission, Ministry of Economic Affairs	Limits authorized by the Investment Commission, Ministry of Economic Affairs, for investing into Mainland China
The Company	712,938 (US\$25,710)	714,768 (US\$25,776)	No limit (Note 2)
Powertip Image Corp.	41,512 (US\$1,497)	206,367 (US\$7,442) (Note 7)	327,309
Chin Yue	73,485 (US\$2,650)	73,485 (US\$2,650)	80,000
Chin Hung	52,909 (US\$1,908)	52,909 (US\$1,908)	80,000

Note 1: Gains/losses of investees for the current period were recognized based on audited financial statements of the parent company in Taiwan, except for Jiangsu Powertip and Dongguan Jiuzheng, which were recognized based on their unaudited financial statements.

Note 2: According to the rules on Mainland investment limits stipulated by the Investment Commission in the revised "Review Principles for Investment or Technological Collaboration in the Mainland Area" on August 29, 2008, the Company has already obtained proof of operational headquarters from the Industrial Development Bureau, Ministry of Economic Affairs, and therefore is not subject to the Mainland investment limit.

Note 3: Dongguan Jiuli, one of the Company's business investments, was de-registered on January 7, 2009; the cumulative amount of investment outstanding at the end of the current period included USD 2,710 thousand of realized losses that were attributed to Dongguan Jiuli.

Note 4: Converted into NTD using exchange rate as at the reporting date (NT: 27.73/US; NT: 3.579/HKD).

Note 5: Powertip HK contributed proprietary funds and machinery and equipment in lieu of capital to the investment.

Note 6: USD 5,945 thousand of which were contributed by Powertip Image (Samoa) in the form of proprietary funds and machinery/equipment in lieu of capital. Powertip Image Corp. underwent a

Notes to standalone financial statements of Powertip Technology Corporation (continued)

re-organization in May 2014, during which Do Electronic acquired 37.98% of ownership interest in Jiangsu Powertip from Powertip Image (Samoa) for a sum of USD 4,558 thousand.

Note 7: The amount of Mainland investments made by Powertip Image Corp. prior to 2009 had been approved by the Investment Commission in writing.

Note 8: Through Chin Yue and Chin Hung, two 100%-owned subsidiaries, Powertip Image Corp. acquired 58.14% and 41.86% ownership interest, respectively, in Do Electronic, and underwent a re-organization in May 2014, during which Do Electronic acquired 37.98% of ownership interest in Jiangsu Powertip from Powertip Image (Samoa).

Through Powertip HK, a business located at a third location, the Company established Dongkeng Jiuzheng Photoelectric, a processing plant for LCD devices and electronic components, in Dongguan, Mainland China, for a sum of HKD 9,024 thousand; this project was approved by the Investment Commission, Ministry of Economic Affairs, on November 20, 2002. Powertip HK later made an indirect investment into the Mainland and founded Dongguan Jiuzheng Photoelectric Co., Ltd. by contributing HKD 5,792 thousand of its funds and the electronics plant of Dongkeng Jiuzheng Photoelectric, an existing investment approved by the Investment Commission, Ministry of Economic Affairs, valued at HKD 4,208 thousand for a total share capital of HKD 10,000 thousand. This project was approved by the Investment Commission, Ministry of Economic Affairs, on July 13, 2012 and completed on April 25, 2013.

3. Significant transactions:

Please refer to "Information related to significant transactions" in the consolidated financial statements for more details on direct and indirect significant transactions between the Company and Mainland investees in 2021 (which have been eliminated when preparing the consolidated financial statements).

(IV) Information on major shareholders:

Name of major shareholder	Shares	Number of shares held	Shareholding percentage
Bright LED Electronics Corp.		19,020,148	11.72%

Note: (1) Information on major shareholders, as presented in this chart, was taken from records of Taiwan Depository & Clearing Corporation as at the final business day of the reported quarter; and included parties holding book-entry common and preferred shares (including treasury stock) for an aggregate ownership of 5% and above. Share capital reported in the Company's financial statements may differ from the number of shares delivered via book entry due to different basis of preparation/calculation.

(2) Shareholders who placed shares under trust are disclosed in trustors' sub-accounts held with various trustees. Shareholders with more than 10% ownership interest are subject to insider equity reporting, according to Securities and Exchange Act. Insider equity includes shares held in own name and any shares placed under trust that the insider has control over. Please access Market Observation Post System for reports on insider equity.

Notes to standalone financial statements of Powertip Technology Corporation (continued)

XIV. Segment information

Please refer to the 2021 consolidated financial statements.