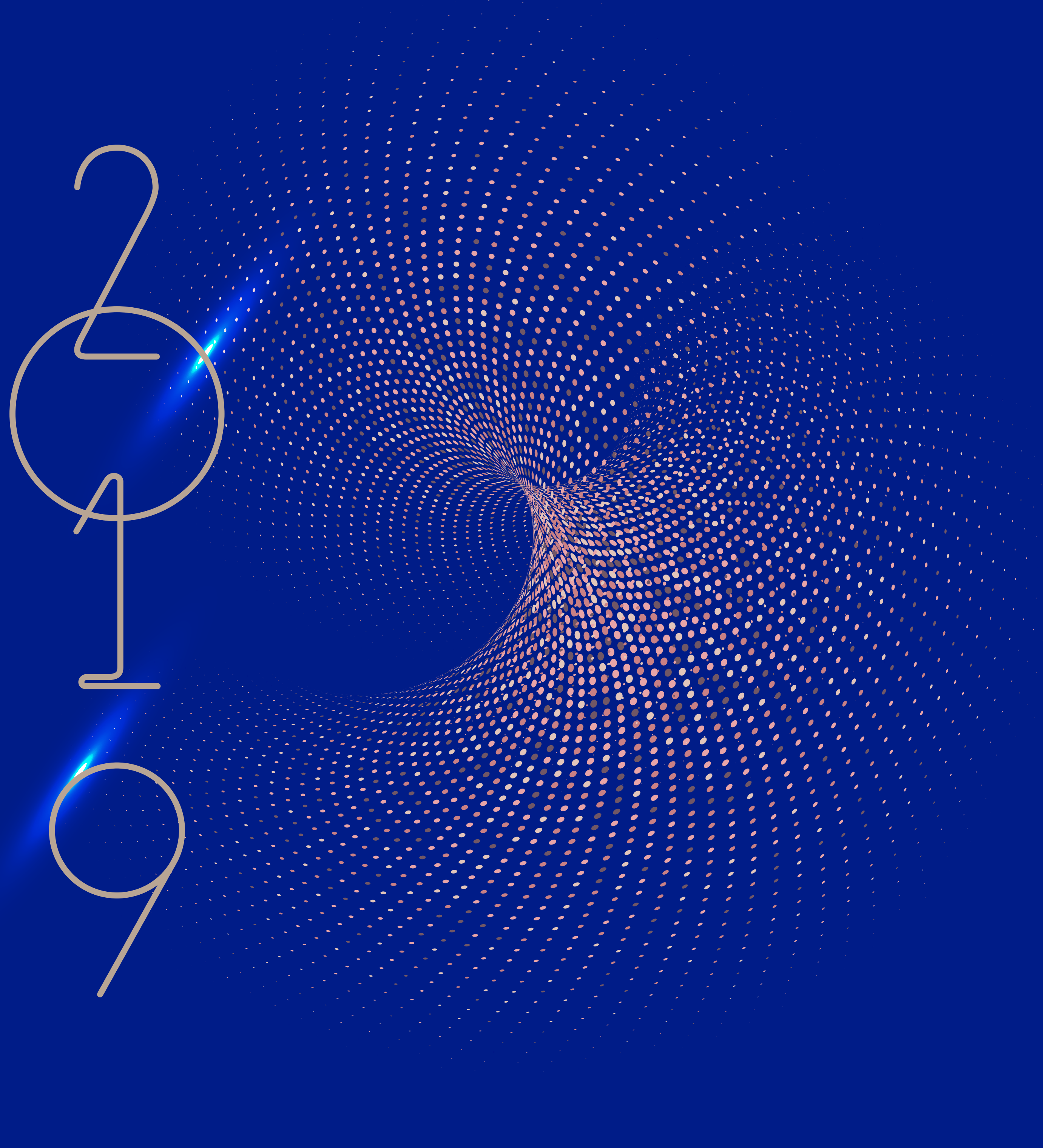
PEGAVISION



PEGAVISION Annual Report 2019

TSE : 6491

PEGAVISION SPOKESPERSON

Name: Tony Wang

Title: Senior Manager of Finance & Accounting Division

Tel.: 886(3) 329-8808

E-mail: ir@pegavision.com

ACTING SPOKESPERSON

Name: Danny Lee

Title: Director of Management Division

Tel.: 886(3) 329-8808

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CORPORATE HEADQUARTERS

Address: 2F.-1, No. 5, Shing Yeh St., Guishan Dist., Taoyuan City, Taiwan (R.O.C.)

Tel.: 886(3) 329-8808

MANUFACTURING SITE

Guishan Site

Address: 2F.-1& 5F.-1, No. 5, Shing Yeh St., Guishan Dist., Taoyuan City, Taiwan (R.O.C.)

Daxi Site

Address: No. 255, Sec. 2, Renhe Rd., Daxi Dist., Taoyuan City, Taiwan (R.O.C.)

Tel.: 886(3) 329-8808

COMMON SHARE TRANSFER AGENT AND REGISTRAR

Name: Registrar & Transfer Agency Department of KGI Securities Co. LTD.

Address: 5F, No. 2, Sec. 1, Chung-Ching South Road, Taipei City, Taiwan (R.O.C.)

Tel.: 886(2) 2389-2999 Website: https://www.kgieworld.com.tw

AUDITORS

CPA Firm: Ernst & Young Taiwan

Name of CPA: Wells Cheng and Eric Kuo

Address: 9F, 333 Keelung Rd., Sec. 1, Xinyi District, Taipei City, Taiwan (R.O.C.)

Tel.: 886(2) 2757-8888 E-mail: http://www.ey.com

OVERSEAS SECURITIES EXCHANGE: None.

CORPORATE WEBSITE

http://www.pegavision.com

This English version of the Pegavision Annual Report is a concise translation of the Mandarin version. This document is created for the sole purpose of the convenience for its non-Mandarin readers and is not an official document to represent the financial status of the Company per Taiwan laws.

Pegavision Corporation does not assure the accuracy of this translated document. Readers wishing to view the official audited version of Pegavision's financial reports can obtain a copy of the Pegavision Annual Report (Mandarin version) on the Pegavision Corporation website (www.pegavision.com).

Letter to Shareholders

Dear Shareholders,

The International Monetary Fund (IMF) has estimated global economic growth at 3.0% for 2019, lower than the 3.7% concluded for 2018. According to Cooper Companies, the size of the contact lens market was estimated to have grown from US$8.6 billion in 2018 to US$8.9 billion in 2019. Although market size has expanded overall, the rate of growth was lower than the 8% reported for 2018. Owing to the contribution of our employees, the Company continued to report record-high revenues in the last year and was able to achieve above-market-average growth. The following is a report of last year's business results and this year's operating plan:

The Company generated NT$3,355.133 million of consolidated revenues in 2019, up NT$222.462 million or 7.1% from the NT$3,132.671 million in 2018. In terms of gross profit margin, the Company was able to improve its automated production procedures and benefit from greatly improved yields and production flexibility that reduced the need for safety stock. As a result, the Company started reducing inventory level since the 1st quarter of 2019, and the reduction affected gross profit margin. The Company reported gross profit margin of 44.5%, operating expense ratio of 26.85% and net income of NT$475.492 million for 2019, representing a NT$65.664 million or 12.13% decrease from the NT$541.156 million one year ago. As the market grows, revenues from both OEM and proprietary brand sale increased.

In terms of product and production procedure development, the Company invested NT$279.802 million into R&D in 2019, which was NT$237.958 million or 17.58% higher than the year before. This investment not only increased production yield, but also contributed significantly to the development of next-generation silicone hydrogel and optics design.

Summary of current business plan

Since inception, the Company has adhered to its business philosophy of "Expanding Consumers' Vision" and made dynamic adjustments to product portfolio based on market changes. By integrating internal resources, we have consistently improved product/service quality and competitiveness, and raised awareness toward corporate governance, corporate responsibilities and environmental protection laws. Today, maximizing value for shareholders and bringing better wearing experience to consumers remain two of our primary goals.

Size of the global contact lens market was estimated at US$8.9 billion in 2019. According to Contact Lens Spectrum, outlook of the global contact lens market remains strong and optimistic in 2020, and after eliminating inflation and exchange rate factors, the Company still expects to achieve 5% to 6% growth. The Company will continue exploring markets for domestic and export sale, and expects to achieve above-industry growth for another year.

In terms of production, the Company adopted new procedures and developed a modularized system that increased the level of automation as well as product quality, and commenced construction of Daxi Plant in October 2019 over the premise it had previously acquired in Taoyuan in 2019. As for sales activities, the Company introduced a broader range of products under the Pegavision brand and its Japanese partners, and marketed them through proprietary retail stores, online merchants and renowned pharmacy chains to build its reputation as a quick fashion brand. With respect to OEM service, the Company has successfully strengthened customer relations through collaborative product development and distribution, and managed to achieve revenue growth in Europe and USA with its proprietary silicone hydrogel-based products.

Future development strategies

Building a healthy and fashionable brand image:

From a healthy optics perspective, products such as progressive multifocal presbyopia, progressive multifocal cosmetic presbyopia, toric cosmetic and myopia control lenses will be introduced to satisfy the needs of all age groups.

From a comfort perspective, a new generation of cosmetic and non-cosmetic silicone hydrogel-based lenses offering long-lasting moisture and high oxygen permeability will be introduced to deliver more comfortable wearing experience.

From a health perspective, blue light/UV blocking lenses with high water content will be introduced to protect vision for modern consumers.

The Company will continue investing resources to improve competitiveness, while at the same time avoid direct competition through product/service differentiation. Changes in domestic and foreign regulations concerning products and operations will be monitored closely to prevent or mitigate impact. Although the China-USA trade conflict does affect the business environment to some degree, the contact lens market is less susceptible to such impact, and with the help of our employees, we are confident of achieving above-industry growth for another year.

On behalf of all employees at Pegavision, I thank our shareholders for their ongoing support, and will strive to raise performance and competitiveness to the next level for the benefit of our shareholders, customers and employees.

T.H. Tung
Chairman

TS Yang
President

Company Profile

2.1 Date of Incorporation: August 26th, 2009

2.2 Company Milestones

- Aug 2009 Jointly founded by Pegatron Corporation and KINSUS Interconnect Technology Corp. with share capital of Three Hundred and Sixty Million New Taiwan Dollars.
- Dec 2009 The first lens production equipment was installed and commenced mass production.
- Jan 2010 Completed installation of the first ultra-precision machine.
- Feb 2010 Introduction of ERP system.
- Mar 2010 Completed installation of the Company's first hydration, sterilization and packaging equipment.
- July 2010 Attained certification for ISO13485 Medical devices -- Quality management systems.
- Aug 2010 Attained certification for Good Manufacturing Practice (GMP).
- Sep 2010 Attained Accreditation of Foreign Manufacturers for medical devices in Japan.
- Oct 2010 Attained CE certification for soft contact lens with 38% and 58% water content.
- Nov 2010 Attained certification from TFDA for soft contact lens with 58% water content.
- Dec 2010 The second lens production equipment was installed and commenced mass production.
  Completed development of automated optical testing system.
- Jan 2011 The first overseas shipment of contact lens.
- Mar 2011 Attained certification from TFDA for soft contact lens with 38% water content.
- Apr 2011 Aquamax, a brand of daily disposable contact lenses, was launched. The Company opened its first official branch at Eslite's Taipei Main Station Underground Mall.
- May 2011 Received subsidy from Industrial Development Bureau, Ministry of Economic Affairs, for leading product development with the "Aspherical High Oxygen Permeability Soft Contact Lens Project."
- Sep 2011 Introduced production management system from Data Systems Consulting.
  Completed product development using automated optical testing system.
  Commenced mass production with the first cosmetic contact lens production equipment, and completed development of the first automated optical testing system for cosmetic contact lenses.
- Nov 2011 Attained certification from TFDA for cosmetic soft contact lens with 58% water content.
  Founded subsidiary - PEGAVISION HOLDINGS CORPORATION.
- Dec 2011 Attained CE certification for cosmetic soft contact lenses with 38% and 58% water content.
  Three branches were established in Greater Taipei Region.
- Jan 2012 Introduction of automatic scheduling system.
- Feb 2012 Attained certification from CFDA for hydrophilic soft contact lens with 38% and 58% water content.
- Mar 2012 Attained certification from TFDA for cosmetic soft contact lens with 38% and 58% water content.
- Apr 2012 Attained certification from the U.S. FDA for soft contact lens with 58% water content.
- July 2012 Completed share capital reduction and cash issue of One Hundred and Eighty Million New Taiwan Dollars at the same time. Share capital was maintained at Three Hundred and Sixty Million New Taiwan Dollars.
- Sep 2012 Founded Shanghai subsidiary - PEGAVISION (Shanghai) Co., Ltd.
  Attained CE certification for silicone hydrogel-based soft contact lens.
- Nov 2012 Obtained rights from United States Adopted Names (USAN) to name the Company's high oxygen permeability lens material.
  Completed a cash issue for working capital that increased share capital to Four Hundred and Twenty Million New Taiwan Dollars.
- Jan 2013 Became the only company in Taiwan to deliver contact lenses through 7-11 Convenience Stores.

Launched the world's first contact lenses to be preserved in solutions fortified with vitamin B6, B12, E and hyaluronic acid.

- Mar 2013 Established the first branch in Taichung to serve customers in central Taiwan.
  Commenced OEM service for colored contact lenses in Japan.
- Apr 2013 The first in Taiwan to set up official counters in Watsons - a nationwide pharmacy chain.
  Attained certification from the U.S. FDA for soft contact lens with 38% water content.
- June 2013 The first in Taiwan to launch limited-edition colored daily disposable contact lenses.
  Established the first branch in Hsinchu to serve local customers.
- July 2013 Completed installation and commenced mass production with silicone hydrogel production equipment.
  Attained certification from TFDA for toric and cosmetic toric soft contact lenses with 58% water content.
- Aug 2013 Adopted POS system from Data Systems Consulting.
  Attained certification from CFDA for cosmetic hydrophilic soft contact lenses with 38% and 58% water content.
- Sep 2013 Commenced mass production of the automatic boxing line. Established the first branch in Kaohsiung to serve customers in southern Taiwan.
- Oct 2013 Attained certification from TFDA for toric, multifocal, cosmetic toric, and cosmetic multifocal soft contact lenses with 38% water content.
  Attained certification from TFDA for multifocal and cosmetic multifocal soft contact lenses with 58% water content.
  Commenced mass production of progressive lenses (presbyopia lenses).
- Dec 2013 Developed Pegavision Cloud to facilitate computerized production management. Machinery data (AOI/PLC) is uploaded to the cloud for analysis and improvement.
  Completed a cash issue for working capital that increased share capital to Five Hundred Million New Taiwan Dollars.
  Branch count increased to 40 nationwide while member size (Pegavision Fan Club) exceeded 100,000.
  More than 3 million lenses were sold each month.
  Attained certification from TFDA for toric, multifocal, cosmetic toric, and cosmetic multifocal soft contact lenses with 55% water content.
- Jan 2014 Attained certification from CFDA for hydrophilic soft contact lens with 58% water content (including proprietary solution formula with vitamins).
- Mar 2014 Introduced the first APP-based delivery service in Taiwan.
- Apr 2014 Commenced mass production of multi-axis toric lenses.
  Attained certification from TFDA for toric, multifocal, cosmetic toric, and cosmetic multifocal soft contact lenses with 58% water content (including proprietary solution formula with vitamins).
  Attained CE certification for soft contact lens with 62% water content.
- May 2014 Commenced mass production with the first high-capacity cosmetic contact lens production equipment, and completed development of high-capacity hydration line.
  Attained certification from TFDA for silicone hydrogel-based soft contact lens with 46% water content.
- June 2014 Became the first contact lens maker from Taiwan to participate in British Contact Lens Association Exhibition, a renowned exhibition in UK.
  Launched Taiwan's first six-in-one colored daily disposable contact lens.
  Attained certification from TFDA for silicone hydrogel-based toric, multifocal soft contact lens with 48% water content..
- July 2014 Successfully introduced the Company's proprietary, patented high oxygen permeability, silicone hydrogel-based materials into the European market.
- Aug 2014 Completed a cash issue for working capital that increased share capital to Six Hundred Million New Taiwan Dollars.
- Oct 2014 Received approval for public offering of shares.

- Dec 2014 Shares were listed for trading on Emerging Stock Board.
- Mar 2015 Attained certification from PMDA (Japan) for daily disposable and cosmetic contact lenses with 58% water content.
  Attained certification from TFDA for toric, multifocal, cosmetic toric, and cosmetic multifocal soft contact lens with 62% water content.
- May 2015 Founded Japanese subsidiary - Pegavision Japan.
- Nov 2015 Attained certification from TFDA for silicone hydrogel-based toric and multifocal soft contact lenses with 55% water content.
- Jan 2016 Attained certification from TFDA for blue light-blocking toric and multifocal soft contact lens with 58% water content.
- Mar 2016 Attained certification from TFDA for toric, multifocal, cosmetic toric, and cosmetic multifocal soft contact lenses with 62% water content (including proprietary solution formula with vitamins).
- Aug 2016 Passed the first zero defect inspection from the U.S. FDA.
  Attained certification from MFDA (Korea) for soft contact lens with 58% water content.
- Oct 2016 Attained certification from MFDA (Korea) for cosmetic soft contact lens with 58% water content.
  Attained certification from PMDA (Japan) for general and cosmetic soft contact lenses with 58% water content (including solution with moisturization formula).
  Attained certification for ISO13485 Medical devices -- Quality management systems in Ukraine.
  Attained certification for OHSAS18001 and ISO14001.
- Dec 2016 Attained certification from the U.S. FDA for toric and multifocal soft contact lenses with 58% water content (including solution with hyaluronic acid formula).
- Jan 2017 Worked with Taiwanese illustrator for the first time for the launch of colored contact lens - the Malayan Tapir series.
  The Company's first large-scale advertising campaign - [For Eyes to Speak Out] won 1 silver, 2 bronze and 3 honorable mentions in the Times Awards.
- Feb 2017 The Company's [Fleur] and [Muriel Eye] product series won the 2017 Taiwan Excellence Award.
- Apr 2017 The Company's first large-scale advertising campaign - [For Eyes to Speak Out] was named Top 10 Creative Ideas of 2016 by Brain Magazine.
- May 2017 Attained certification from PMDA (Japan) for toric and cosmetic soft contact lenses with 58% water content (including solution with moisturization formula).
- July 2017 Sponsored Eden Social Welfare Foundation by donating NT$5 for every box of clear contact lenses sold to Flying Slow Angels Fund.
- Sep 2017 The light travel series won Best Sales Award in Watsons HWB Awards.
- Nov 2017 Attained certification from PMDA (Japan) for daily disposable and cosmetic soft contact lenses with 38% water content (including solution with moisturization formula).
  The Japanese subsidiary - Pegavision Japan became an official member of Japan Contact Lens Association (JCLA).
  Implemented e-invoice at branches nationwide.
- Dec 2017 Annual revenues exceeded NT$2 billion.
- Mar 2018 Created official website for Hong Kong to serve members of the Pegavision Fan Club in Hong Kong and Macao areas.
- June 2018 Signed contract with Inventec to acquire land and plant facilities in Daxi, Taoyuan, for capacity expansion and growth. (The land had an area of 26,375 m² and the building had a floor area of 22,195 m²; the transaction amounted to NT$1.38 billion, excluding business tax)
- Nov 2018 Received bronze award for Talent Quality Management System (TTQS) - Corporate Version from Ministry of Labor.
- Dec 2018 Sponsored Eden Social Welfare Foundation by donating NT$5 for every box of clear contact lenses sold to

Flying Slow Angels Fund.

Taiwan branches became part of Taipei Rapid Transit Corporation's "Taipei 100 Select."

Annual revenues exceeded NT$3 billion.

- Jan 2019 Expanded open-shelf distribution to cosmetic channels including Watsons, Cosmed, TOMOD’s, Make Beauty and OK Mart.

  Acquired the ownership of land and Plant in Daxi
- Mar 2019 Attained certification from HSA (Singapore) for general and cosmetic soft contact lenses with 38% and 58% water content (including solution with moisturization formula).
- Apr 2019 Named 2019 "Technology Sector Best Employer" by 1111 Job Bank.

  Attained certification from PMDA (Japan) for multifocal and cosmetic soft contact lenses with 58% water content (including solution with moisturization formula).
- May 2019 Attained certification from NMPA (China) for hydrophilic soft contact lens with 38% and 58% water content (including solution with moisturization formula).

  The size of Pegavision Fan Club reached new height and exceeded 750,000.
- June 2019 Attained certification from MFDA (Korea) for cosmetic soft contact lenses with 58% water content (including solution with moisturization formula).
- Aug 2019 Company's 10-year anniversary.
- Oct 2019 Became the first contact lens company in Taiwan to be listed on Taiwan Stock Exchange Corporation.

  Daxi Plant commenced construction.

  Attained certification from MOH (Vietnam) and Thai FDA for cosmetic soft contact lenses with 38% and 58% water content.
- Nov 2019 Launched Black 2.0 Health Bright Drink manufactured by TCI Co., Ltd.
- Dec 2019 Commenced sale of Pegavision's proprietary progressive, multifocal, clear daily disposable lens in Taiwan.

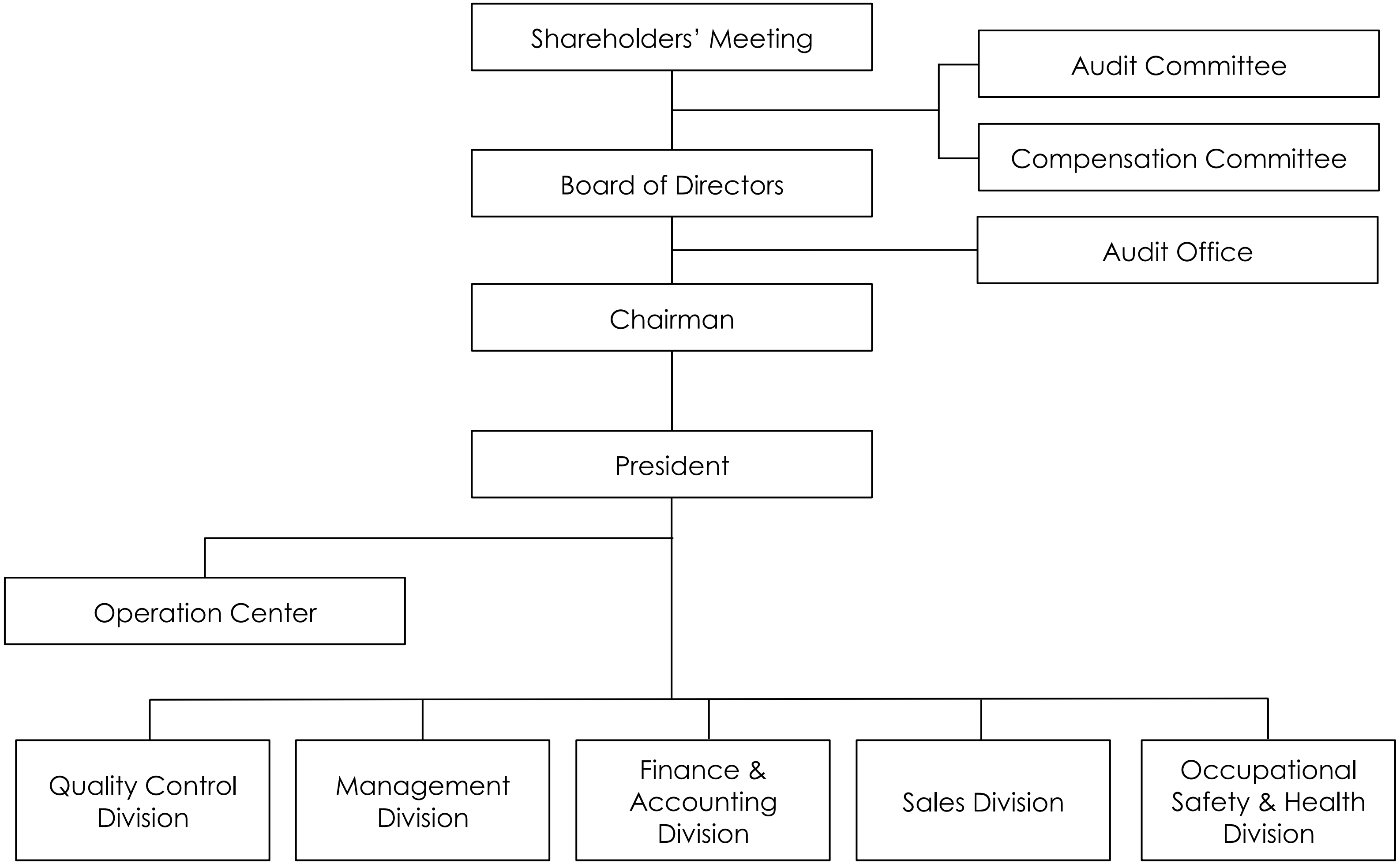
  Annual revenues exceeded NT$3.3 billion.

Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 03/27/2020



3.1.2 Department Functions

President Office

- Defines the Company's business strategies and operational goals; supervises goal execution and evaluates performance.
- Defines the function, responsibilities and authority of each department; devises and implements projects; appoints department heads and project hosts; and coordinates and supports overseas subsidiaries in business promotion and project implementation.
- Enforcement of business integrity policy, establishment and supervising execution of business integrity policy, and making regular reports to the board of directors.

Audit Office

- Audits and evaluates operational records and internal control system for accuracy, reliability, efficiency and effectiveness; and offers recommendations in ways that improve business continuity, minimize risk and fraud, and ensure the effectiveness of internal control.
- Evaluation and audit of internal management systems and making of internal audit plans.

Operation Center

- Responsible for new product development, design, trial production and mass production; execution and tracking of product/production plans; preparation and application for medical instrument permit; and patent strategy and protection.
- Responsible for the development, design, procurement and improvement of machinery, equipment and software, as well as the repair and maintenance of plant buildings throughout the organization.
- Responsible for design or injection molds, development and evaluation of injection technology and molds, development and improvement of ultra-precision technology, and installation, installation, operation and maintenance of ultra-precision machinery and testing equipment.
- Responsible for development and improvement of production technology, production management/scheduling and warehousing.
- Responsible for manufacturing of finished and semi-finished goods, production outsourcing, quality control, packaging and assembly.
- Responsible for studying medical instrument laws of different countries.
- Study of clinical laws and application of medical instrument permits for products in various countries.

Quality Control Division

- Responsible for testing of raw materials, semi-finished goods and finished goods, as well as execution of product/procedure quality control.
- Responsible for the establishment and implementation of quality assurance system, customer complaint handling and quality audit plan, as well as follow-up review of audit findings.
- Control, analysis and review of defective products.
- Calibration and management of measuring instruments.

Management Division

- Enforcement of corporate social responsibilities, proposal and execution of CSR-related policies, systems, strategies and projects, and making regular reports to the board of directors.

- Responsible for the planning, development and execution of the Company's management information system, and the acquisition, usage and maintenance of system hardware and software.
- General tasks including administration, file/contract management, personnel affairs, procurement, general affairs, and MIS.

Finance & Accounting Division

- Responsible for cash disbursement, capital planning, bookkeeping, taxation, financial statement preparation, budget review, credit control, collection and finance/accounting related tasks.
- Shareholder-related tasks.

Sales Division

- Domestic market survey on proprietary brands, gathering and analysis of market intelligence, planning and execution of business goals, customer service, product sale and collection planning/management.
- Foreign market survey on OEM products, gathering and analysis of market intelligence, planning and execution of business goals, customer service, product sale, new product development and exploration of new markets and opportunities.

Occupational Safety & Health Division

- Planning, implementation and supervision of occupational safety and health management practices.
- Planning and supervision of safety and health training and occupational hazard prevention programs.

3.2 Board Members and Management Team

3.2.1 Board Members

Information Regarding Board Members

As of 03/27/2020

Title/Name	Natio-nality	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding (As of 10/04/2019)		Spouse & Minor Shareholding (As of 10/04/2019)		Selected Education & Past Positions	Selected Current Positions
						Shares	%	Shares	%	Shares	%		
Chairman/ T.H. Tung	R.O.C	Male	06/14/2018	3	08/12/2009	645.729	1.08	645,729	0.92	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary PH.D in Engineering, National Taipei University of Technology Vice Chairman of Asustek Computer Inc. ("Asus")	Note 1
Vice Chairman/ Peter Kuo	R.O.C	Male	06/14/2018	3	08/12/2009	1,928,868	3.21	1,928,868	2.76	360,249	0.51	Electrical Engineering, National Taipei University of Technology President of Unicap Electronics	Note 2
Director/ Kinsus Investment Co., Ltd.	R.O.C	-	06/14/2018	3	08/12/2009	22,088,736	36.81	21,233,736	30.33	-	-	-	-
Director/ Rep. : TS Yang	R.O.C	Male			06/14/2018	387,437	0.65	452,437	0.65	-	-	Master of Business Administration, National Chengchi University Senior Vice President of Kinsus Interconnect Technology Corp. President of Piotek Computer (Suzhou) Co., Ltd President of Flexium Interconnect Inc.	Note 3
Director/ Kinsus Investment Co., Ltd.	R.O.C	-	06/14/2018	3	08/12/2009	22,088,736	36.81	21,233,736	30.33	-	-	-	-
Rep. : Scott Chen	R.O.C	Male			06/14/2018	328,292	0.55	265,292	0.38	-	-	Physics, National Tsing Hua University President of Kinsus Interconnect Technology Corporation Manufacturing Manager of Motorola Taiwan	Note 4
Director/ Asuspower Investment Co., Ltd.	R.O.C	-	06/14/2018	3	08/12/2009	5,701,121	9.50	5,480,121	7.83	-	-	-	-
Rep. : Jeffrey Wun	R.O.C	Male			06/14/2018	-	-	-	-	-	-	Master's degree in Mechanical Engineering, National Tsing Hua University Vice President of UMAX Computer Corporation	Note 5
Director/ Asuspower Investment Co., Ltd.	R.O.C	-	06/14/2018	3	08/12/2009	5,701,121	9.50	5,480,121	7.83	-	-	-	-

Title/Name	Natio-nality	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding (As of 10/04/2019)		Spouse & Minor Shareholding (As of 10/04/2019)		Selected Education & Past Positions	Selected Current Positions
						Shares	%	Shares	%	Shares	%		
Rep. : Wen-Yung Ho	R.O.C	Male			06/16/2015	-	-	-	-	-	-	Medicine, Taipei Medical University Doctor of Medicine, National Taiwan University Associate Professor of Taipei Medical University Attending Physician of National Taiwan University Hospital Director of Chinese Television System Inc. Director of Taiwan Public Television Service Foundation	Note 6
Independent Director/ Eric Yao	R.O.C	Male	06/14/2018	3	06/16/2015	-	-	-	-	-	-	Architecture, TungHai University	Note 7
Independent Director/ Andrew T. Huang	R.O.C	Male	06/14/2018	3	06/16/2015	-	-	-	-	-	-	Medicine, National Taiwan University	Note 8
Independent Director/ Shu-Yu Lee	R.O.C	Female	06/14/2018	3	06/14/2017	-	-	-	-	-	-	Accounting, National Chengchi University Master of Business Administration, National Chengchi University Senior Vice President of Friendly Securities Co., Ltd. Sales Vice President of Mega Securities Co., Ltd. Sales Vice President of Fubon Securities Co. Ltd.	Regional COO of Friendly Capital Co., Ltd.

Note 1: Chairman and Group CEO of Pegatron Corp.; Director of Kinsus Interconnect Technology Corp.; Director of Asrock Incorporation; Director of AzureWave Technologies, Inc.; Chairman of Kinsus Investmebt Co., Ltd.; Chairman of Lumens Digital Optics Inc.; Chairman of Asus Investment Co., Ltd.; Chairman of Asuspower Investment Co., Ltd.; Chairman of Asustek Investment Co., Ltd.; Chairman of Ri-Kuan Metal Corporation; Director of FuYang Technology Corp.; Director of Hua-Yuan Investment Ltd.; Director of Asfly Travel Service Ltd.; Director of Wise Investment Ltd.; Director of Pega International Ltd.; Director of Casetek Holdings Ltd. (Cayman); Director of Pegatron Holding Ltd.; Director of Unihan Holding Ltd.;Director of Magnificent Brightness Ltd.; Director of Casetek Holdings Ltd.; Director of Protek Global Holdings Ltd.; Director of Digitek Global Holdings Ltd.; Director of Kinsus Corp.(USA); Director of PegatronHolland Holding B.V.; Director of AMA Holdings Ltd.; Director of Powtek Holdings Limited; Director of Cotek Holdings Limited; Director of Grand Upright Technology Ltd.; Director of Aslink Precision Co., Ltd.; Chairman of Eslite Foundation for Culture and Arts; Director of The Alliance Cultural Foundation; Director of Hanguang Education Foundation; President of Taipei Computer Association; Supervisor of National Performing Arts Center; Director of Koo Foundation Sun Yat-Sen Cancer Center; Director of Lung Yingtai Cultural Foundation; Director of ANDREW T.HUANG Medical Education Promotion Fund; Director of Fair Winds Foundation; Director of Bridge Across the Strait Foundation; President of Cross-Strait Association for Advancing Culture Creative; Vice President of Monte Jode Science & Technology Association.

Note 2: Chairman & Chief Executive Officer of Kinsus Interconnect Technology Corp.; Director of Kinsus Investment Co., Ltd.; Vice Chairman of Pegavision Corp.; Director of Kinsus Holding(Samoa) Ltd.; Director of Kinsus Holding (Cayman) Ltd.; Director of Pioted Holding Ltd.; Director of Piotek Holdings Ltd.(Cayman); Director of Piotek (HK) Trading Ltd.; Chairman of Kisus Corp. (USA).

Note 3: President of Pegavision Corp.; Supervisor of Fuyang Technology Corp.

Note 4: President of Kinsus Interconnect Technology Corp.; Director of Fuyang Technology Corp.

Note 5: President & Director of Lumens Digital Optics Inc.; Compensation Committee Member of Avision Inc.

Note 6: Director of Andrew T. Huang Medical Education Promotion Fund; Director of GFC Foundation; Director of Fullfoods Foundation; Director of BW Publishing.

Note 7: Co-founder and person-in-charge of dX Creative House, dX Media and Eric Yao Creative Consultant; Independent Director of Eslite Spectrum, Taishin Charity Foundation, Kingdom Yu San Education Foundation and Taiwan Friendship Association; Director of Cloud Gate Culture and Arts Foundation.

Note 8: Director, Superintendent and CEO of Koo Foundation Sun Yat-San Cancer Center ; Chairman of Andrew T. Huang Medical Education Promotion Fund; Duke University - Professor of Internal Medicine; Consulting Member of NHRI Forum; Member of the Advisory Board of Duke Institute of Global Health.

Major Shareholders of the Institutional Shareholders

As of 03/27/2020

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders	%
Asuspower Investment Co., Ltd.	Pegatron Corp.	100
Kinsus Investment Co., Ltd.	Kinsus Interconnect Technology Corp.	100

Major Shareholders of the Major Shareholders that are Juridical Persons

As of 08/16/2019

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders	%
Pegatron Corp.	Asustek Computer Inc. (Representative: Jonney Shih)	17.18
	Silchester International Investors International Value Equity Trust	4.41
	T.H.Tung	3.61
	Jonney Shih	2.57
	Silchester International Investors International Value Equity Group Trust	2.27
	Ted Hsu	2.16
	NAN SHAN LIFE INSURANCE CO., LTD	2.07
	Silchester International Investors International Value Equity Taxable Trust	1.51
	Cathay United Bank in Custody for Expert Union Limited Investment account	1.47
	Morgan Stanley & Co. International Plc	1.41

As of 03/31/2019

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders	%
Kinsus Interconnect Technology Corp.	Asus Investment Co., Ltd.	13.32
	Asustek Co., Ltd.(Representative: Yan-Xue Su)	12.90
	Asuspower Investment Co., Ltd.(Representative: Xiang-Xiang Wu)	12.31
	Bank of Taiwan in its Capacity as Master Custodian for Investment Account of Mars Investment Co., Ltd.	6.50
	Nan Shan Life Insurance Company Ltd.	4.72
	New Labor Pension Fund	1.17
	JP Morgan Chase Bank in its Capacity as Master Custodian for PGIA Progress International Equity Index	1.05
	JPMorgan Chase Bank Taipei Branch in its Capacity as Master Custodian for Vanguard ETF	0.86
	CTBC Bank in its Capacity as Master Custodian for Employee Restricted Shareholding Trust Account (with Voting and Dividend Entitlement) of KINSUS Interconnect Technology	0.83
	Standard Chartered Bank in its Capacity as Master Custodian for iShares Emerging Markets ETF	0.58

Directors' Professional Qualifications and Independent Analysis

Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)												Number of Other Public Companies Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accouting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Othewise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
T.H Tung			V				V		V		V	V	V	V	V	0
Peter Kuo			V				V		V		V	V	V	V	V	0
Kinsus Investment Co., Ltd. Rep.: TS Yang			V			V	V	V	V	V	V	V	V	V		0
Kinsus Investment Co., Ltd. Rep.: Scott Chen			V			V	V	V	V		V	V	V	V		0
Asuspower Investment Co., Ltd. Rep.: Jeffrey Wun			V			V	V	V	V	V	V	V	V	V		0
Asuspower Investment Co., Ltd. Rep.: Wen-Yung Ho			V	V	V	V	V	V	V	V	V	V	V	V		0
Andrew T. Huang			V	V	V	V	V	V	V	V	V	V	V	V	V	0
Eric Yao	V		V	V	V	V	V	V	V	V	V	V	V	V	V	1
Shu-Yu Lee			V	V	V	V	V	V	V	V	V	V	V	V	V	0

Note:
Directors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:
(1) Not an employee of the Company or any of its affiliates;
(2) Not a director or supervisor of the Company or any of its affiliates(This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
(3) Not a natural-person shareholder who holds shares, together with those held by the person s spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
(4) Not a manager listed in (1), or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in (2) or (3).;
(5) Not a director, supervisor or employee of any corporate shareholder that: 1. holds 5% or more of the Company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the Company according to Paragraph 1 or 2, Article 27 of The Company Act (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
(6) Not a director, supervisor or employee of any company that holds directorship in the Company or has more than half of voting rights controlled by a single natural person(This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
(7) Does not assume concurrent duty and is not a spouse to the Company's Chairman, President or equivalent role, and is not a director, supervisor or employee of another company or institution. (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
(8) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company. (However, this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the Company or in the Company's parent or subsidiaries or in another subsidiary of the parent that is compliant with the Act or local law);
(9) Not a professional, owner, partner, director, supervisor or manager of any sole proprietorship, partnership, company or institution that provides audit service to the Company or its affiliate, or provides commercial, legal or accounting service but is compensated for less than NT$500,000 total in the last two years, and not a spouse to any of the above parties. This excludes duties performed as a member of remuneration committee, public acquisition committee or M&A special committee in accordance with the Securities and Exchange Act or Business Mergers And Acquisitions Act;

(10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
(11) Not been a person of any conditions defined in Article 30 of the Company Law; and
(12) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Implementation of board diversity policy

Board members should be diversified in a manner that supports the Company's operations, business activities and growth. The diversification should be based on, but is not limited to, the following two principles:

(1) Background and value: Gender, age, nationality, culture, etc.

(2) Knowledge and skills: Career background (e.g.: law, accounting, industry or technology), professional skill and industry experience.

Board members shall possess the knowledge, skills and characters needed to perform their duties and support ideal corporate governance. The board as a whole shall be capable of the following:

(1) Operational judgment: Board members shall be capable of overseeing corporate operations and trends in order to evaluate the efficiency and performance of the Company's operations and set development strategies accordingly.

(2) Business administration: Board members shall possess the administration skills needed to improve the Company's operating performance, maximize organizational potentials and raise overall competitiveness.

(3) Industry knowledge: Contact lenses are medical instruments directly applied over the eye, which is why it is necessary for board members to possess relevant industry knowledge in order to form and make appropriate adjustments to the Company's operating strategies.

(4) Leadership: Board members shall possess leadership skills and be able to develop knowledge on the internal and external environment, in order to lead the Company and employees toward fulfilling duties, maximizing potentials, and accomplishing various goals.

(5) Decision-making: The board of directors represents the Company's highest decision-making authority, which is why board members must be capable of making decisions over the Company's management and business development projects to ensure ongoing improvement in every aspect.

The Company's board of directors comprises 9 members including 3 independent directors (representing 33.33%). Board members must collectively possess professional background in computers, electrical engineering, business administration, mechanical engineering, physics, medicine, architecture and accounting; they must contribute judgment, management, knowledge, leadership and decisions in their respective areas of expertise and are capable of complementing each other. The board's collective professional backgrounds and skills ensure that the Company is able to enforce the above operational and growth strategies.

3.2.2 Management Team

As of 03/27/2020

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (As of 10/04/2019)		Selected Education & Past Positions	Selected Current Positions at Pegavision and Other Companies
				Shares	%		
President/ TS Yang	R.O.C.	Male	01/01/2017	452,437	0.65	Master of Business Administration, National Chengchi University Senior Vice President of Kinsus Interconnect Technology Corp. President of Piotek Computer (Suzhou) Co., Ltd President of Flexium Interconnect Inc.	Supervisor of Fuyang Technology Corp.
Vice President of Operation Center/ Terry Chang	R.O.C.	Male	08/03/2009	103,343	0.15	Master of Chemistry, National Yunlin University of Science and Technology Prodisc Technology Inc. - Manager	None
Manager of Quality Control Division/ Gary Lee	R.O.C.	Male	04/11/2017	20,000	0.03	Master of Radiation Biology, National Tsing Hua University Lingsen Precision Industries Ltd. - Manager	None
Director of Management Division/ Danny Lee	R.O.C.	Male	10/12/2017	28,000	0.03	Master of Industrial Engineering, National Chiao Tung University KINSUS Interconnect Technology Corp. - Assistant Vice President	None
Senior Manager of Finance & Accounting Division/ Tony Wang	R.O.C.	Male	12/27/2013	197,669	0.28	Department of Accounting, National Taipei University Pegatron Corporation - Senior Manager	None
Supervisor of Audit Office/ Evelyn Lu	R.O.C.	Female	05/05/2014	12,000	0.02	Department of Banking and Finance, Kainan University Global Lighting Technologies Inc. - Auditor	None

3.2.3 Remuneration Paid to Directors, President, and Vice President

Director's Remuneration

Unit: NT$thousand

Title / Name	Director's Remuneration of 2019								Total Remuneration (A+B+C+D) as a % of Net Income After Tax	
	Base Compensation (A)		Severance Pay and Pensions (B)		Compensation to Directors (C)		Allowance (D)			
	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities
Chairman/ T.H Tung	800	800	-	-	6,255	6,255	-	-	1.48	1.48
Director/ Peter Kuo										
Director/Kinsus Investment Co., Ltd. Rep.: TS Yang										
Director/Kinsus Investment Co., Ltd. Rep.: Scott Chen										
Director/ Asuspower Investment Co., Ltd. Rep.: Jeffrey Wun										
Director/ Asuspower Investment Co., Ltd. ep.: Wen-Yung Ho										
Independent Director/ Andrew T. Huang	2,400	2,400	-	-	-	-	-	-	0.50	0.50
Independent Director/ Eric Yao										
Independent Director/ Shu-Yu Lee										

Title / Name	Compensation Earned by a Director Who is an Employee of Pegavision or of Pegavision's Consolidated Entities						(A+B+C+D+E+F+G) as a % of Net Income After Tax		Compensation from invested businesses other than subsidiaries
	Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Employees' Profit Sharing Bonus (G)				
	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	
Chairman/ T.H Tung	4,556	4,556	-	-	4,820	4,820	3.46	3.46	60,760
Director/ Peter Kuo									
Director/Kinsus Investment Co., Ltd. Rep.: TS Yang									
Director/Kinsus Investment Co., Ltd. Rep.: Scott Chen									
Director/ Asuspower Investment Co., Ltd. Rep.: Jeffrey Wun									
Director/ Asuspower Investment Co., Ltd. ep.: Wen-Yung Ho									
Independent Director/ Andrew T. Huang	-	-	-	-	-	-	0.50	0.50	-
Independent Director/ Eric Yao									
Independent Director/ Shu-Yu Lee									

- The remuneration policy, system, standards and structure for independent directors, and how the amount of remuneration is determined in association with their duties, risks, time commitment or other factors: Remuneration is determined based on peer levels after taking into account the level of business risks borne by the Company.

- Compensation received by director for providing service to any company included in the financial statements (e.g. consultancy service without the title of an employee) in the last year, except those disclosed in the above table: None

Compensation bracket table

<table>
<tr><th rowspan="3">Range of compensation paid to directors</th><th colspan="4">Name of Director</th></tr>
<tr><th colspan="2">Sum of A+B+C+D</th><th colspan="2">Sum of A+B+C+D+E+F+G</th></tr>
<tr><th>From Pegavision</th><th>From all consolidated entities</th><th>From Pegavision</th><th>From parent company and all invested businesses</th></tr>
<tr><td>NT$0 ~ NT$999,999</td><td>Scott Chen
Jeffrey Wun
Wen-Yung Ho
Andrew T. Huang
Eric Yao
Shu-Yu Lee
TS Yang</td><td>Scott Chen
Jeffrey Wun
Wen-Yung Ho
Andrew T. Huang
Eric Yao
Shu-Yu Lee
TS Yang</td><td>Scott Chen
Jeffrey Wun
Wen-Yung Ho
Andrew T. Huang
Eric Yao
Shu-Yu Lee</td><td>Jeffrey Wun
Wen-Yung Ho
Andrew T. Huang
Eric Yao
Shu-Yu Lee</td></tr>
<tr><td>NT$1,000,000 ~ NT$1,999,999</td><td>T.H Tung
Peter Kuo
Asuspower Investment Co., Ltd.</td><td>T.H Tung
Peter Kuo
Asuspower Investment Co., Ltd.</td><td>T.H Tung
Peter Kuo
Asuspower Investment Co., Ltd.</td><td>Asuspower Investment Co., Ltd.</td></tr>
<tr><td>NT$2,000,000 ~ NT$3,499,999</td><td>Kinsus Investment Co., Ltd.</td><td>Kinsus Investment Co., Ltd.</td><td>Kinsus Investment Co., Ltd.</td><td>Kinsus Investment Co., Ltd.</td></tr>
<tr><td>NT$3,500,000 ~ NT$4,999,999</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NT$5,000,000 ~ NT$9,999,999</td><td></td><td></td><td>TS Yang</td><td>Peter Kuo
Scott Chen</td></tr>
<tr><td>NT$10,000,000 ~ NT$14,999,999</td><td></td><td></td><td></td><td>TS Yang</td></tr>
<tr><td>NT$15,000,000 ~ NT$29,999,999</td><td></td><td></td><td></td><td></td></tr>
<tr><td>NT$30,000,000 ~ NT$49,999,999</td><td></td><td></td><td></td><td>T.H Tung</td></tr>
<tr><td>NT$50,000,000 ~ NT$99,999,999</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Over NT$100,000,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td>11</td><td>11</td><td>11</td><td>11</td></tr>
</table>

Compensation Paid to President and Vice President

Unit: NT$thousand

Title/Name	President's Remuneration of 2019								Total Remuneration (A+B+C+D) as a % of Net Income After Tax	
	Base Compensation (A)		Severance Pay and Pensions (B)		Bonuses, and Allowances (C)		Employees' Profit Sharing Bonus (D)			
	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities	From Pegavision	From All Consolidated Entities
President/TS Yang Vice President/ Yuchin Lai Vice President/ Terry Chang	6,797	6,797	-	-	1,753	1,753	9,140	9,140	3.72	3.72

Note: Terry Chang was promoted Vice President on August 1, 2019. Compensation disclosed in this annual report refers to the amount received as Vice President after promotion.

Range of compensation paid to presidents	Name of Presidents	
	From Pegavision	From all consolidated entities
NT$0 ~ NT$999,999		
NT$1,000,000 ~ NT$1,999,999		
NT$2,000,000 ~ NT$3,499,999		
NT$3,500,000 ~ NT$4,999,999	Yuchin Lai Terry Chang	Yuchin Lai Terry Chang
NT$5,000,000 ~ NT$9,999,999	TS Yang	TS Yang
NT$10,000,000 ~ NT$14,999,999		
NT$15,000,000 ~ NT$29,999,999		
NT$30,000,000 ~ NT$49,999,999		
NT$50,000,000 ~ NT$99,999,999		
Over NT$100,000,000		
Total	3	3

Names of managers who received employee remuneration

Unit: NT$thousand

Title/Name	Stock	Cash	Total	Ratio of Total Amount to Net Income After Tax (%)
President/TS Yang Vice President/Yuchin Lai Vice President/Terry Chang Senior Manager of Finance & Accounting Division/ Tony Wang	-	10,740	10,740	2.26

Compare and state the ratio of total remuneration paid to the Company's Directors, President and Vice Presidents by the company and the companies in the consolidated financial statements to net income in the past two years

Title	2018 Ratio of Total Remuneration to Net Income After Tax (%)		2019 Ratio of Total Remuneration to Net Income After Tax (%)	
	From Pegavision	From All consolidated entities	From Pegavision	From all consolidated entities
Director	3.53	3.53	3.96	3.96
President and Vice President	2.10	2.10	3.72	3.72

Remuneration for the Company's directors has been outlined in the Articles of Incorporation, that the sharing bonus to the Directors shall not exceed one (1) percent of the profits, and may take into account the extent and value of the services provided for the management of the Company and the standards of the industry with the R.O.C. and overseas, and is subject to board of directors' approval before payment. Compensation package for the managers includes salary, bonus and employee remuneration, which are determined based on job position, the responsibilities undertaken, contributions to the Company, and peer levels. The procedures for determining compensation were established according to Articles of Incorporation and level of approval authority. The amount of compensation paid to directors and managers has already taken into account the positive correlation between future business risk and future performance, and is set at a level that caters for continuity and risk management at the same time.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors Meeting Status

A total of 5 (A) meetings of the Board of Directors were held in 2019. The directors' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)
Chairman	T.H. Tung	5	0	100%
Director	Peter Kuo	5	0	100%
Director	Kinsus Investment Co., Ltd. Rep.: TS Yang	5	0	100%
Director	Kinsus Investment Co., Ltd. Rep.: Scott Chen	5	0	100%
Director	Asuspower Investment Co., Ltd. Rep.: Wen-Yung Ho	5	0	100%
Director	Asuspower Investment Co., Ltd. Rep.: Jeffrey Wun	4	1	80%
Independent Director	Andrew T. Huang	3	2	60%
Independent Director	Eric Yao	5	0	100%
Independent Director	Shu-Yu Lee	5	0	100%

Annotations:

1. For board of directors meetings that meet any of the following descriptions, state the date, session, the discussed motions, independent directors' opinions and how the company has responded to such opinions:

(1) Conditions described in Article 14-3 of the Securities and Exchange Act:

Meeting Date	Motion	All independent directors' opinions
2019 1st meeting 2019.02.18	Motion #7: Assessment of independence and appointment of financial statement auditor for 2019.	Independent director passed unanimously
2019 2nd meeting 2019.04.29	Motion #2: Amendments to "Asset Acquisition and Disposal Procedures." Motion #3: Amendments to "Articles of Incorporation." Motion #4: Amendments to "External Party Lending, Guarantee and Endorsement Procedures." Motion #7: Amendments to "Internal Control Cycle."	
2019 3rd meeting 2019.07.29	Motion #1: Proposal for cash issue. Motion #2: Proposal to authorize the Chairman to arrange tender and determine project details and winning conditions for the construction of production facilities and dormitory for the new Daxi Plant, up to a total of NT$1.504 billion.	
2019 5th meeting 2019.12.30	Motion #3: Amendments to "Audit Committee Foundation Principles." Motion #4: Amendments to "Remuneration Committee Foundation Principles." Motion #5: Assessment of independence and appointment of financial statement auditor for 2020.	

(2) Any other documented objections or qualified opinions raised by independent director against board resolution in relation to matters other than those described above: None.

2. Disclosure regarding avoidance of interest-conflicting motions, including the names of directors concerned, the motions, the nature of conflicting interests, and the voting process:

Meeting Date	Motion	Conflicting interests and voting outcome
2019 3rd meeting 2019.07.29	Motion #4: 2019 salary adjustment for the Company's managers. Motion #5: Distribution of 2018 bonus for the Company's managers Motion #6: Allocation of subscription quota to managers for the Company's pre-listing cash issue.	Motions #4 to #6 concerned the self-interests of Director TS Yang and managers. Under the chairperson's instruction, Director TS Yang and attending managers were asked to disassociate from the motion. After recusal, the motion was passed unanimously by all remaining directors.
2019 5th meeting 2019.12.30	Motion #6: Distribution of 2019 "year-end bonus" to the Company's managers.	Motion #6 concerned the self-interests of Director TS Yang and managers. Under the chairperson's instruction, Director TS Yang and attending managers were asked to disassociate from the motion. After recusal, the motion was passed unanimously by all remaining directors.

3. Enhancements to the functionality of board of directors in the current and most recent year, and the progress of such enhancements: In addition to implementing Board of Directors Conference Rules, the board of directors has been adequately empowered to operate in accordance with the rules and relevant laws. Both the chief internal auditor and treasurer are requested to report progress on internal audit and financial position at board meetings, and are able to produce useful reports

for reference.

3.3.2 Audit Committee Meeting Status

A total of 5 meetings of the audit committee were held in 2019. The independent directors' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)
Independent Director	Andrew T. Huang	3	2	60%
Independent Director	Eric Yao	5	0	100%
Independent Director	Shu-Yu Lee	5	0	100%

Annotations:

1. For audit committee meetings that meet any of the following descriptions, state the date, session, the discussed motions, independent directors' opinions and how the company has responded to such opinions:
   (1) Conditions described in Article 14-3 of the Securities and Exchange Act:

Meeting Date	Motion	Resolutions
2019 1st meeting 2019.02.18	Motion #1: 2018 financial statements, consolidated financial statements and business report. Motion #3: Passed the 2018 Declaration of Internal Control System. Motion #4: Assessment of independence and appointment of financial statement auditor for 2019.	Passed unanimously by all attending members
2019 2nd meeting 2019.04.29	Motion #2: Amendments to "Asset Acquisition and Disposal Procedures." Motion #3: Amendments to "Articles of Incorporation." Motion #4: Amendments to "External Party Lending, Guarantee and Endorsement Procedures." Motion #5: Amendments to "Internal Control Cycle." Motion #7: Passed the Declaration of Internal Control System.	
2019 3rd meeting 2019.07.29	Motion #1: 2019 second quarter financial statements. Motion #2: Proposal for cash issue. Motion #3: Proposal to authorize the Chairman to arrange tender and determine project details and winning conditions for the construction of production facilities and dormitory for the new Daxi Plant, up to a total of NT$1.504 billion.	
2019 5th meeting 2019.12.30	Motion #1: Establishment of the 2020 audit plan. Motion #2: Amendments to "Audit Committee Foundation Principles." Motion #3: Assessment of independence and appointment of financial statement auditor for 2020.	

   (2) Other than those described above, any resolutions unapproved by the Audit Committee but passed by more than two-thirds of directors: None.

2. Avoidance of involvements in interest-conflicting discussions by independent directors; state the names of concerned independent directors, the discussions, the nature of conflicting interests, and the voting process: None.
3. Communication between independent directors and internal/external auditors (e.g., discussions concerning the Company's financial and business affairs, the method of communication used, and the outcome): Independent directors convene Audit Committee meetings on a regular basis to communicate with the chief internal auditor and CPA on business-related matters. All major resolutions made by the Audit Committee are reported in board of directors meetings on a regular basis.

Annual key tasks and progress

Key tasks:

- Financial report
- Auditing and accounting policies and procedures
- Internal control systems and related policies and procedures
- Major asset or derivative transactions
- Major loans, endorsements or guarantees
- Offering or issuance of securities
- Derivatives and cash investments
- Compliance
- Whether or not managers and directors are involved in related party transactions and prone to conflict of
- Fraud prevention plan and investigation report
- Grievance report
- Information security
- Corporate risk management
- Background, independence and performance of financial statement auditors
- Appointment, dismissal or remuneration of financial statement auditors
- Appointment and dismissal of finance, accounting or internal audit managers
- Fulfillment of Audit Committee duties

interest	- Audit Committee performance self-assessment questionnaire

Progress:

Motions for 2019 apart from the matters listed in Article 14-5 of the Securities and Exchange Act:

Meeting Date	Motion	Resolutions
2019 1st meeting 2019.02.18	Motion #2: 2018 earnings appropriation	Passed unanimously by all attending members
2019 2nd meeting 2019.04.29	Motion #1: 2019 first quarter financial statements. Motion #6: 2019 second-quarter and third-quarter financial forecast.	
2019 4th meeting 2019.10.28	Motion #1: Proposal to authorize the Chairman to arrange tenders and determine project details and winning conditions for the construction of five major pipelines and fire safety facilities for the new Daxi Plant, up to a total of NT$200 million.	

3.3.3 Compensation Committee Meeting Status

Compensation Committee Member's Professional Qualifications and Independent Analysis

Criteria / Name	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)										Number of Other Public Companies Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accouting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Othewise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Andrew T. Huang			V	V	V	V	V	V	V	V	V	V	V	0
Eric Yao	V		V	V	V	V	V	V	V	V	V	V	V	1
Shu-Yu Lee			V	V	V	V	V	V	V	V	V	V	V	0

Note:

Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

1. Not an employee of the Company or any of its affiliates;
2. Not a director or supervisor of the Company or any of its affiliates(This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
3. Not a natural-person shareholder who holds shares, together with those held by the person s spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a manager listed in (1), or a spouse, 2nd-degree relative or closer or 3rd-degree direct relative or closer to any personnel listed in (2) or (3).;
5. Not a director, supervisor or employee of any corporate shareholder that: 1. holds 5% or more of the Company's outstanding shares; 2. is a top-5 shareholder; or 3. appoints director/supervisor representative in the Company according to Paragraph 1 or 2, Article 27 of The Company Act (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
6. Not a director, supervisor or employee of any company that holds directorship in the Company or has more than half of voting rights controlled by a single natural person(This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
7. Does not assume concurrent duty and is not a spouse to the Company's Chairman, President or equivalent role, and is not a director, supervisor or employee of another company or institution (This excludes concurrent independent director positions held within the Company and its parent/subsidiary, or in other subsidiary of the same parent company that are compliant with The Company Act or local laws);
8. Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the Company. (However, this excludes concurrent independent director positions held within companies or institutions that hold more than 20% but less than 50% outstanding shares of the Company or in the Company's parent or subsidiaries or in another subsidiary of the parent that is compliant with the Act or local law)；
9. Not a professional, owner, partner, director, supervisor or manager of any sole proprietorship, partnership, company or institution that provides audit service to the Company or its affiliate, or provides commercial, legal or accounting service but is compensated for less than NT$500,000 total in the last two years, and not a spouse to any of the above parties. This excludes duties performed as a member of remuneration committee, public acquisition committee or M&A special committee in accordance with the Securities and Exchange Act or Business Mergers And Acquisitions Act; and
10. Not been a person of any conditions defined in Article 30 of the Company Law.

Compensation Committee Meeting Status

Tenure of the session of Compensation committee is from 14th June, 2018 to 13th June, 2021. A total of 4 meetings of the Compensation Committee were held in 2019. The status of attendance is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)
Chair	Andrew T. Huang	2	2	50%
Member	Eric Yao	4	0	100%
Member	Shu-Yu Lee	4	0	100%

Annotations:

1. In the event that the Remuneration Committee's proposal is rejected or amended in a board of directors meeting, please describe the date and session of the meeting, details of the motion, the board's resolution, and how the Company had handled the Remuneration Committee's proposals (describe the differences and reasons, if any, should the board of directors approve a solution that was more favorable than the one proposed by the Remuneration Committee): None.
2. Should any member object or express qualified opinions to the resolution made by the Remuneration Committee, whether on-record or in writing, describe the date and session of the meeting, details of the topics discussed, the entire members' opinions, and how their opinions were addressed: None.

Meeting Date	Motion	Resolutions	Company's response to Remuneration Committee's opinions
3rd meeting of the 3rd board/ 2019.02.18	Allocation of director remuneration for 2018	Passed unanimously by all attending members	Proposed by the board of directors and passed unanimously by all attending members
4th meeting of the 3rd board/ 2019.04.29	Establishment of the Company's "Employee Share Subscription Policy"		
5th meeting of the 3rd board/ 2019.07.29	1. 2019 personnel transfer 2. 2019 salary adjustment for the Company's managers 3. Distribution of 2018 bonus for the Company's managers 4. Allocation of subscription quota to managers for the Company's pre-listing cash issue		
6th meeting of the 3rd board/ 2019.12.30	1. Distribution of 2019 "year-end bonus" to the Company's managers 2. Amendments to "Audit Committee Foundation Principles		

3.3.4 Corporate Governance Implementation Status and Deviations from "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and Its Reason(s)</th></tr>
<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td>1. Does Company follow "Taiwan Corporate Governance Implementation" to establish and disclose its corporate governance practices?</td><td>V</td><td></td><td>The Company has passed a set of "Corporate Governance Code of Conduct" during board of directors meeting. This code of conduct is adopted by the board as a guidance for business strategy, performance monitoring and enforcement of corporate governance.</td><td>None</td></tr>
<tr><td>2. Shareholding Structure & Shareholders' Rights
(1) Does Company have Internal Operation Procedures for handling shareholders' suggestions, concerns, disputes and litigation matters. If yes, has these procedures been implemented accordingly?
(2) Does Company possess a list of major shareholders and beneficial owners of these major shareholders?
(3) Has the Company built and executed a risk management system and "firewall" between the Company and its affiliates?
(4) Has the Company established internal rules prohibiting insider trading on undisclosed information?</td><td>V</td><td></td><td>(1) For protection of shareholders' interest, the Company has implemented a spokesperson system and assigned dedicated personnel to handle shareholders' suggestions, queries and disputes. Owing to the Company's harmonious relationship with shareholders, no dispute has arisen to date.
(2) The Company and its share transfer agent are regularly informed of the identities of its major shareholders and controller.
(3) The Company has "Group Affiliate Related Party Transaction Policy" and "Subsidiary Supervision Policy" in place to manage affiliated enterprises. Furthermore, internal control system and management policies have been created and implemented in accordance with laws.
(4) The Company has "Insider Trading Prevention Policy" in place to prevent insiders from trading securities against non-public information.</td><td>None</td></tr>
<tr><td>3. Composition and Responsibilities of the Board of Directors
(1) Has the Company established a diversification policy for the composition of its Board of Directors and has it been implemented accordingly?
(2) Other than the Compensation Committee and the Audit Committee which are required by law, does the Company plan to set up other Board committees?
(3) Has the Company established a set of board performance evaluation policy and methods and conducted performance assessments on a yearly basis? Are assessment outcomes presented to the board and used as reference for compensating and nominating board members?</td><td>V</td><td></td><td>(1) The Company has specified in its "Corporate Governance Code of Conduct" a diversity policy for board members. According to "Director Election Procedures," election of directors should take into account the overall board composition, and board members must possess the knowledge, experience, skills and characters needed to accomplish duty. The board comprises 9 directors (including 3 independent directors), one of whom is female, who are elected to serve a term of 3 years. Board members have possed professional background in computers, electrical engineering, business administration, mechanical engineering, physics, medicine, architecture and accounting, and are capable of contributing judgment, accounting and finance analysis, business management, crisis management, knowledge of industry, international market perspective, leadership and decisions, which are helpful to the Company's development and operation.
(2) The Company will assemble other functional committees as required by law or operations.
(3) The Company has developed its plans according to the authority's policies.</td><td>None</td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
(4) Does the Company regularly evaluate its external auditors' independence?			(4) Independence of the financial statement auditor is assessed every year, for which Ernst & Young is required to issue a "Statement of Independence" according to Statement of CPA Professional Ethics No. 10, produce a checklist of conditions mentioned in Articles 46 and 47 of Certified Public Accountant Act, and evaluate whether the CPAs conform with the following criteria: A. Is not involved in any task that concerns the CPA's own interest; B. Does not request for, commit to or accept any illegal gain or compensation; C. Is not employed by the client or the audited party for regular job, does not receive fixed salary and does not assume position of director or supervisor; D. Is not a spouse, direct blood relative, direct relative by affinity, or collateral blood relative of second degree or closer with the person-in-charge or any manager of the client or audited party; E. Does not engage the client or audited party in any arrangement characterized as investment or sharing of financial benefit, whether through self, spouse or underage child; F. Does not provide non-auditing service such as management consultation that would compromise independence. The assessment found no violation of independence.	
4. Has the Company assigned competent and adequate number of staff to oversee corporate governance, including a Corporate Governance Officer that is responsible for corporate governance-related affairs (including but not limited to furnish information required for business execution by directors, assisting directors and supervisors with compliance, handle matters relating to board meetings and shareholders' meetings according to laws, record minutes of board meetings and shareholders meetings, etc.)?	V		During the board of directors meeting held on October 28, 2019, a resolution was passed to appoint Senior Manager Ching-Hsiang Wang, head of Treasury Division, as the Corporate Governance Officer, whose duties are to protect shareholders' interest and support the board in various duties. Senior Manager Ching-Hsiang Wang has accumulated more than three years of work experience as treasurer in a public company. Main duties of the Corporate Governance Officer are to make preparations for board of directors and shareholder meetings, prepare board meeting and shareholder meeting minutes, assist directors and supervisors with ongoing education, provide directors and supervisors with the information needed to perform duties, and assist directors and supervisors with compliance issues. The following tasks were performed throughout 2019: (1) Assisted independent and non-independent directors with their duties, provided directors with the needed information, and arranged directors' training; A. Provided board members with timely update on the latest regulations and rules concerning the Company's operations and corporate governance; B. Arranged meetings for independent directors with business heads or financial statement auditors whenever they were in need to learn the Company's financial or business performance according to the Corporate Governance Code of Conduct. C. Helped arrange training courses for board members based on the Company's industry characteristics and directors' education/career	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and Its Reason(s)</th></tr>
<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td></td><td></td><td></td><td>background.
(2) Assisted board of directors and shareholders with meeting procedures, resolution and compliance issues;
A. Checked announcement of major board resolutions, ensured compliance and accuracy of the information conveyed, and protected investors' rights to information symmetry;
B. Prepared board meeting agenda and notified all directors at least 7 days before meeting, and provided participants with relevant materials for the meetings; reminders were sent in advance for motions that involved conflict of interest, and minutes were produced within 20 days after each board meeting;
C. Oversaw shareholder meeting affairs such as booking and registration.
Continuing education completed in 2019:
<table>
<tr><th>Course date</th><th>Organizer</th><th>Course name</th><th>Course hours</th><th>Total hours trained during the year</th></tr>
<tr><td>2019/10/28</td><td>Taiwan Corporate Governance Association</td><td>Directors' Responsibilities and Risk Management under the Latest Corporate Governance</td><td>3</td><td rowspan="3">9</td></tr>
<tr><td>2019/11/10</td><td>Taiwan Corporate Governance Association</td><td>Corporate Governance Support: Roles of Corporate Governance Personnel</td><td>3</td></tr>
<tr><td>2019/12/30</td><td>Taiwan Corporate Governance Association</td><td>Legal Issues of Instant Messaging</td><td>3</td></tr>
</table></td><td></td></tr>
<tr><td>5. Has the Company established a means of communicating with its Stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc.) or created a Stakeholders Section on its Company website? Does the Company respond to stakeholders' questions on corporate responsibilities?</td><td>V</td><td></td><td>The Company has disclosed on its website and on Market Observation Post System complete contact information of the spokesperson, acting spokesperson and share transfer agent. The Company maintains open communication channels to ensure timely response to major corporate social responsibility issues that are of concern to stakeholders. The Company has procurement, treasury and other specialized units in place, and uses e-mail, telephone and fax to maintain communication with employees, suppliers and stakeholders as well as to ensure the correctness of stakeholders' information.
The Company has created a "Stakeholders" section on its website to communicate with stakeholders and respond to key corporate social responsibility issues.</td><td>None</td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
6. Has the Company appointed a professional registrar for its Shareholders' Meetings?	V		The Company commissions the Stock Administration Department of KGI Securities to handle shareholder meeting affairs.	None
7. Information Disclosure (1) Has the Company established a corporate website to disclose information regarding its financials, business and corporate governance status? (2) Does the Company use other information disclosure channels (e.g. maintaining an English-language website, designating staff to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)? (3) Does the Company publish and make official filing of annual financial report within two months after the end of an accounting period, and publish/file Q1, Q2 and Q3 financial reports along with monthly business performance before the required due dates?	V		(1) The Company has a team in place to gather and disclose financial, business, corporate governance and material information over its website. (2) The Company has appointed dedicated personnel to disclose relevant information on the Market Observation Post System. In addition, the Company adopts a spokesperson system and has disclosed contact information of its spokesperson and acting spokesperson to the public. (3) The Company had published and submitted its 2019 financial report on 2020/02/10; its 2019 2nd quarter and 3rd quarter financial reports were published early on 2019/08/07 and 2019/10/29, respectively (the Company did not prepare 1st quarter financial report in 2019).	None
8. Has the Company disclosed other information to facilitate a better understanding of its corporate governance practices (e.g. including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors)?	V		(1) Employee rights: A. Adequate training for employees: Employees are given orientation and on-job training that are relevant to their roles, which help shorten the learning curve. Technical conferences are organized from time to time to equip employees with the latest skills and improve the Company's production and R&D capabilities. In terms of on-job training, the Company organizes suitable programs internally depending on the needs of each department, and arranges for employees to participate in training courses offered by external consultants, institutions, government agencies and industrial/commercial associations in order to develop professional skills and characters that are relevant to their roles. B. The Company values the harmony of employment relations, and strives to provide employees with complete benefits. It implements a comprehensive training program to help employees plan and develop skills over the course of their careers, which ultimately improves the Company's overall competitiveness. To promote unity and health among the workforce, the Company offers full range of benefits including an exquisitely maintained office environment, profit sharing program, employee shareholding trust and a fair performance evaluation/promotion system. (2) Employee care: A. Employees are trained properly on safety, health and disaster prevention to ensure safety of the work environment. B. The Company has established and implemented relevant policies in accordance with Labor Standards Act, Labor Pension Act and employment regulations to govern appointment, dismissal and retirement of employees. Furthermore, work rules have been created in accordance	None

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and Its Reason(s)</th></tr>
<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td></td><td></td><td></td><td>with the Labor Standards Act to outline terms of employment, such as recruitment and employee rights, and an employee welfare committee has been assembled to oversee employees' benefits.
(3) Investor relations:
A. Enhanced operational transparency: The Company publishes financial, business and material information over Market Observation Post System as required by law. The Company has created an Investors section on website whereas and assigned dedicated personnel to gather and disclose corporate information. All agents have also been made aware of the Company's information reporting systems. Furthermore, operation-related information is uploaded to Market Observation Post System within the time limit specified by the authority.
B. The Company has developed an effective internal control system that is constantly reviewed for improvements.
(4) Supplier relations:
It is the goal of the Company and subsidiaries to maintain long-term and productive relationship with suppliers. Apart from engaging suppliers in meetings to discuss market changes, pricing, delivery date and product quality, the Company also conducts evaluations as a means to promote suppliers' awareness towards environmental protection and social responsibilities. The Company maintains open communication with suppliers and conducts businesses in the utmost integrity.
(5) Stakeholders' interests:
A. Respect for intellectual property rights:
The Company assigns employees to various professional training from time to time, and in doing so promotes respect and awareness towards intellectual properties.
B. Regulatory compliance:
a、 The Company has signed a contract with a professional law firm to ensure that all corporate activities are compliant with laws.
b、 The Company pays constant attention to media coverage on legal issues so that it remains informed of the latest regulation.
c、 The Company upholds integrity as part of its corporate spirit and values ethics as well as responsibilities to the society. All financial and material information has been fully disclosed to the public, whereas spokesperson and acting spokesperson are available to address public queries for the protection of stakeholders' interests.
(6) Directors' education:
All of the Company's directors had completed the required number of training hours specified in "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies" in 2019. For details on education of individual directors, please</td><td></td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
			refer to "Directors' education" in this annual report. (7) Implementation of risk management policy and risk measurement criteria: The Company's risk management policy has been designed to ensure stability and safety of business operations while at the same time maintain balanced risk and return to the best interest of its shareholders, creditors and employees. (8) Implementation of customer policy: The Company and group affiliates all have dedicated salespersons and assistants assigned to serve customers with the help of an ERP system. Contact details and methods have been disclosed on the Company's website to ensure timely response to customers' requirements. (9) Insurance against directors' liabilities: The Company has purchased insurance to protect itself against liabilities that may arise from directors', independent directors' and managers' illegal conducts, and thereby reduce and diversify the risk of significant losses to the Company and shareholders.	

9. Please explain the improvements made, based on the latest Corporate Governance Evaluation results published by TWSE Corporate Governance Center, and propose enhancement measures for any issues that are yet to be rectified. (Not required if the Company is not one of the evaluated subjects) : The Company was not one of the evaluated subjects in 2019.

3.3.5 Social Responsibility Implemenetation Status and Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies"

<table>
<tr><th rowspan="2">Assessment Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Non-implementation and Its Reason(s)</th></tr>
<tr><th>Yes</th><th>No</th><th>Explanation</th></tr>
<tr><td>1. Has the Company conducted risk assessment on environmental, social and corporate governance issues that are relevant to its operations, and implemented risk management policies or strategies based on principles of materiality?</td><td>V</td><td></td><td>The Company has conducted risk assessment on environmental, social and corporate governance issues. The following is a list of major risks that are relevant to operations and risk management policies currently available.
<table>
<tr><td>Risk aspect</td><td>Assessment Item</td><td>Risk management policy or strategy</td></tr>
<tr><td>Environmental</td><td>1. Climate change and energy/carbon reduction
2. Use of water resources and wastewater discharge</td><td>1. Adoption of energy-saving measures for reduced energy consumption
2. Execution of water-saving measures for improved water resource managementl</td></tr>
<tr><td>Social</td><td>1. Safe and healthy work environment
2. Employee welfare and compensation</td><td>1. Ongoing enhancement to occupational safety and health system
2. Offering of favorable compensation, comprehensive welfare measures and a gender-equal and healthy environment</td></tr>
<tr><td>Corporate governance</td><td>1. Business integrity
2. Compliance</td><td>1. Issuance of 2019 CSR report
2. Compliance with government regulations, which facilitates sound commercial and risk management practices and promotes sustainable business management</td></tr>
</table></td><td>None</td></tr>
<tr><td>2. Does the Company have a dedicated (or ad-hoc) CSR organization with Board of Directors authorization for senior management, which reports to the Board of Directors?</td><td>V</td><td></td><td>The Administration Division is concurrently involved in the enforcement of corporate social responsibilities within the Company. The Company's operations did not give rise to any material economic, environmental or social issue in 2019 that required intervention and reporting by senior management under board of directors' authorization.</td><td>None</td></tr>
<tr><td>3. Environmental Issues
(1) Has the Company set an Environmental management system designed to industry characteristics?</td><td>V</td><td></td><td>(1) The Company has passed environmental management system certifications including ISO 14001 and OHSAS18001, and embrace their duty as green citizens by adopting multiple measures to promote energy/carbon reduction and environmental protection at workplace. As a result, employees are able to develop proper environmental protection awareness and take appropriate actions in everyday life.</td><td>None</td></tr>
</table>

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
(2) Is the Company committed to improving resource efficiency and to the use of renewable materials with low environmental impact?			(2) The Company's commitment to efficient use of available resources and use of renewable materials: A. The Company not only ensures compliance with public safety, construction, fire safety, occupational health and safety and waste disposal laws, but also maintains working environment and natural environment in accordance with energy/carbon reduction rules. B. The Company adopts practices such as paperless, waste sorting, and paper recycling/reuse. In addition, the Company has invested into the construction of a rainwater harvesting system to achieve more efficient use of water resources in Daxi Plant. C. The Company uses of paper towels made from recycled pulp, and thereby contribute effort to environmental protection.	
(3) Does the company assess potential risks and opportunities associated with climate change and undertake measures in response to climate issues?			(3) Please refer to the Company's 2019 CSR report for detailed assessment of potential risks and opportunities associated with climate change.	
(4) Does the company maintain statistics on greenhouse gas emission, water usage and total waste volume in the last two years, and implement policies aimed at reducing energy, carbon, greenhouse gas, water and waste?			(4) The Company monitors and maintains statistics on water usage and volume of waste generated on a monthly basis. It has policies in place to reduce energy, carbon and water usage and enhance waste management.	
4. Social Issues (1) Does the Company set policies and procedures in compliance with regulations and internationally recognized human rights principles?	V		(1) The Company and subsidiaries have complied with local employment regulations and are committed to protecting employees' rights. The Company adopts open communication to promote its policies and learn employees' opinions. A robust personnel management policy has been implemented not only to protect employees' rights, but also to promote harmonious employment relations and mutual benefits.	None
(2) Has the Company established appropriately managed employee appeal procedures (including compensation, leave of absence and other benefits), and appropriately reflected business performance or outcome in employees' compensations?			(2) The Company allocates a certain percentage of monthly pre-tax profit as employee bonus and pays them on a quarterly basis; furthermore, employee profit-sharing is allocated at 11.5% of pre-tax profit and paid the following year. Through these bonuses, the Company shares with employees the success of its business operations. Please refer to Section Five - "V. Employment relations" (pages 62-63) of this report for details on employee welfare measures and implementation.	
(3) Does the Company provide employees with a safe and healthy working environment, with regular safety and health training?			(3) The Company and subsidiaries provide new employees with the necessary safety and health training as required by law. They also coordinate with building management committees in various emergency response protocols, fire drills, first aid training and awareness programs to promote workers' safety and health.	

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
(4) Has the Company established effective career development training plans? (5) Has the company complied with laws and international standards with respect to customers' health, safety and privacy, marketing and labeling in all products and services offered, and implemented consumer protection policies and complaint procedures? (6) Has the company implemented a supplier management policy that regulates suppliers' conducts with respect to environmental protection, occupational safety and health or work rights/human rights issues and tracked suppliers' performance on a regular basis?			(4) The Company strives to provide new recruits with complete orientation, and offer diverse learning channels and courses as they progress through their career. Through interaction with knowledgeable experts and peers, the Company aims to expand employees' horizon and work experience. (5) The Company markets and packages its products entirely in compliance with Pharmaceutical Affairs Act, Medical Devices Act, Medical Instrument Advertising Regulations and Review Principles, Personal Information Protection Act and international standard EN ISO 15223-1. Consumers who are dissatisfied or have opinions toward the services provided are able to contact the Company via channels such as consumer service hotline and e-mail. All requests, suggestions and disputes are handled by dedicated departments with the intent to resolve the underlying issues. (6) The Company's supplier assessment covers environmental safety management, corporate social responsibility, environmental protection and occupational safety and health. These assessments serve as means to ensure suppliers' compliance with relevant rules.	
5. Does the company prepare corporate social responsibility report or any report of non-financial information based on international reporting standards or guidelines? Are the abovementioned reports supported by assurance or opinion of a third-party certifier?		V	The Company did not prepare CSR report for 2018. The 2019 CSR report is expected to be published in September 2020.	See “Explanation”
6. If the company has established CSR principles in accordance with "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies," please describe its current practices and any deviations from the Best Practice Principles: None.				
7. Other important information to facilitate better understanding of the company’s implementation of corporate social responsibility: Please refer to Pegavision’s website for its corporate social responsibility implementation status (http://www.pegavision.com/tw/csr2.php)				

3.3.6 Corporate Conduct and Ethics Implementation Status and Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies"

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures (1) Has the Company established a set of board-approved business integrity policy, and stated in its Memorandum or external correspondence about the policies and practices it implements to maintain business integrity? Are the board of directors and the senior management committed to fulfilling this commitment? (2) Has the Company developed systematic practices for assessing integrity risks? Does the Company perform regular analyses and assessments on business activities that are prone to higher risk of dishonesty, and implement preventions against dishonest conducts that include at least the measures mentioned in Paragraph 2, Article 7 of "Ethical Corporate Management Best Practice Principles for TPEx Listed Companies"? (3) Has the Company defined and enforced operating procedures, behavioral guidelines, penalties and grievance systems as part of its preventive measures against dishonest conducts? Are the above measures reviewed and revised on a regular basis?	V		(1) The Company has implemented a set of "Integrity Code of Conduct" that requires its directors, managers (including the president, vice presidents, assistant vice presidents or equivalent, the head of Treasury, the head of Accounting and any authorized signatories involved in the Company's administrative affairs), employees, agents and controller to enforce the business integrity policy and take pro-active actions to prevent dishonest conducts. The Company and subsidiaries remain dedicated to the highest standard of business integrity and are committed to protecting shareholders' interest and pursuing sustainability. (2) The Company has implemented a set of "Business Integrity Procedures and Behavioral Guidelines" based on the outcome of risk assessments performed on business activities of higher risk of dishonesty. The above procedures and guidelines cover all preventive measures mentioned in Paragraph 2, Article 7 of "Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies". (3) The Company as outlined operating procedures, behavioral guidelines, penalties and grievance systems in its "Business Integrity Procedures and Behavioral Guidelines". A dedicated unit has been assigned to perform yearly reviews on whether existing policies continue to serve as effective control over business activities that are prone to higher integrity risk.	None
2. Ethic Management Practice (1) Does the company assess the ethics records of whom it has business relationship with and include business conduct and ethics related clauses in the business contracts?	V		(1) The Company and subsidiaries ensure compliance with The Company Act, Securities and Exchange Act, Business Entity Accounting Act and all laws applicable at places of business, which provide the foundation for integrity management. Prior to engaging in commercial transactions, the Company is required to evaluate the legitimacy of its distributors, suppliers, customers and counterparties, investigate whether they were previously involved in dishonest conducts, and avoid dealing with entities that demonstrate poor integrity. Contract signed with an external party should include an integrity clause that gives the Company the right to terminate the contract if the counterparty is found to have been involved in dishonest conducts.	None

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
(2) Does the Company have a unit that enforces business integrity directly under the board of directors? Does this unit report its progress (regarding implementation of business integrity policy and prevention against dishonest conducts) to the board of directors on a regular basis?			(2) The Audit Office was responsible for integrity-related matters within the Company in 2019. The Audit Office operates directly under the board of directors and reports progress during board meetings. Business integrity management duties were assumed by the President's Office starting from 2020, whose responsibilities include: assisting the board and management with the establishment and monitoring of business integrity policy and preventions, and enforcing business integrity code of conduct within the organization. The President's Office reports its progress to the board of directors in the 4th quarter each year. Execution of business integrity policy in 2019: The Company has internal controls in place to ensure effective control over business activities taking place at any location. An audit unit has been assigned to perform independent audits and ensure that the system is functioning properly to prevent dishonest conducts. There had been no audit finding relating to business integrity in 2019. The Company also has open communication channels and grievance mailboxes in place that insiders and outsiders may use to raise anonymous or non-anonymous report of any commercial activity in violation of fairness, honesty, trust or transparency at any time. No misconduct of any kind was received in 2019.	
(3) Does the company establish policies to prevent conflict of interests, provide appropriate communication andcomplaint channels and implement such policies properly?			(3) The Company has implemented an "Integrity Code of Conduct" and "Ethical Conduct Guidelines" to prevent conflict of interest. Contacts and channels have also been made available to enable report of illegal or unethical conduct.	
(4) Has the Company implemented effective accounting policy and internal control system to maintain business integrity? Has an internal or external audit unit been assigned to devise audit plans based on the outcome of integrity risk assessment, and to audit employees' compliance with various preventions against dishonest conduct?			(4) The Company has developed effective and fully computerized accounting policy and internal control system, and assigned internal auditors to devise audit plans based on the outcome of integrity risk assessment, as well as to audit employees' compliance with various preventions against dishonest conduct.	
(5) Does the company provide internal and external ethical conduct training programs on a regular basis?			(5) The Company has developed "Integrity Code of Conduct" with board of directors' approval, and organizes regular training to promote employees' awareness.	

Assessment Item	Implementation Status			Non-implementation and Its Reason(s)
	Yes	No	Explanation	
3. Implementation of Complaint Procedures (1) Does the company establish specific complaint and reward procedures, set up conveniently accessible complaint channels, and designate responsible individuals to handle the complaint received? (2) Does the company establish standard operation procedures for investigating the complaints received and ensuring such complaints are handled in a confidential manner? (3) Does the company adopt proper measures to prevent a complainant from retaliation for his/her filing a complaint?	V		(1) The Company has "Business Integrity Procedures and Behavioral Guidelines" in place and encourages employees to take the initiative in reporting ethical concerns and conflict of interest. Employees are able to report inappropriate conducts through e-mail; all reported misconducts are handled personally by the senior management. (2) No disciplinary action will be taken until the final ruling. If there is evidence to prove involvement in dishonest or inappropriate activities or violation against corporate policies or regulations, the Company will assign senior managers to handle personally in a manner compliant with laws and internal policies. (3) The Company has proper channels in place to enable anonymous reporting of misconducts. (4) Reporters' identity and details of their reports are kept strictly confidential.	None
4. Does the company disclose its guidelines on business ethics as well as information about implementation of such guidelines on its website and Market Observation Post System ("MOPS")?	V		The Company has disclosed "Integrity Code of Conduct" in annual report and on website and Market Observation Post System.	None
5. If the company has established corporate governance policies based on Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation: None				
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., review the company's corporate conduct and ethics policy): In addition to "Integrity Code of Conduct," the Company also has other internal policies such as Ethical Conduct Guidelines and Insider Trading Prevention in place.				

3.3.7 Corporate governance principles and inquiry methods

The Company has established a corporate governance code of conduct and related policies, all of which have been effected with board of directors' and shareholders' approval. Details can be found on the Company's website (http://www.pegavision.com/tw/) and Market Observation Post System.

3.3.8 Resignation or Dismissal of Chairman, President, Heads of Accounting, Finance, Internal Audit, Corporate Governance and R&D during 2019 and as of the Date of this Annual Report:

As of March 27, 2020

Title / Name	On-Board Date	Date of Resignation or Dismissal	Reasons for Resignation or Dismissal
Vice President/ Yuchin Lai	July 15, 2010	February 20, 2020	Retirement

3.3.9 Other information material to the understanding of corporate governance: Please visit the Company's website (http://www.pegavision.com/tw/).

3.3.10 Internal Control System Execution Status

Statement of Internal Control System

Pegavision Corporation

Statement of Internal Control System

February 10, 2020

Based on the findings of self-assessment, Pegavision Corporation states the following with regard to its internal control system during the year 2019:

1. Pegavision's Board of Directors and management are responsible for establishing, implementing and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency of our reporting, and compliance with of applicable ruling, laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and Pegavision takes immediate remedial actions in response to any deficiencies.
3. Pegavision evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring activities.
4. Pegavision has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, Pegavision believes that, on December 31, 2019, it has maintained, in all material respects, and effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with the applicable ruling, laws and regulations.
6. This Statement is an integral part of Pegavision's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on February 10, 2020 with none of nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegavision Corporation

Chairman/T.H. Tung　　　　President/TS Yang

If CPA Was Engaged to Conduct a Special Audit of Internal Control System, Provide Its Audit Report:

None.

3.3.11 Penalties imposed against the company for regulatory violation, or penalties against employees for violation of internal control system, in the most recent year up till the publication date of annual report that may significantly impact shareholders' interest or security price; describe details of the penalty, areas of weakness and any corrective actions taken: None.

3.3.12 Major Decisions of Shareholders' Meeting and Board Meetings

Major Resolution of Annual General Shareholders' Meeting and the Execution Progress

Pegavision held 2019 Annual General Shareholders' Meeting on June 14, 2019. At the meeting, shareholders approved the following resolutions:

(1) Amendments to the Company's "Articles of Incorporation"
Execution: Resolution passed. Approved for registration by the authority on July 11, 2019.

(2) Amendments to the Company's "Asset Acquisition and Disposal Procedures"
Execution: Resolution passed and executed as resolved.

(3) Amendments to "External Party Lending, Guarantee and Endorsement Procedures"
Execution: Resolution passed and executed as resolved.

(4) Acknowledgment of 2018 earnings appropriation
Execution: Decision was made to distribute cash dividends at NT$1.5 per common share; July 22, 2019 was set as the cash dividend baseline date, and payment of cash dividends was scheduled to take place on August 16, 2019.

Major Resolution of Board Meeting

(1) Board Meeting of February 18, 2019:
- Allocation of employee remuneration for 2018;
- Allocation of director remuneration for 2018;
- 2018 financial statements, consolidated financial statements and business report;
- 2018 earnings appropriation;
- Convention of 2019 annual general meeting, and acceptance of motion proposal from shareholders with more than 1% ownership interest;
- Passed the 2018 Statement of Internal Control System;
- Assessment of independence and appointment of financial statement auditor for 2019.

(2) Board Meeting of April 29, 2019:
- Extension and renewal of banking facilities;
- Amendments to the Company's "Asset Acquisition and Disposal Procedures";
- Amendments to the Company's "Articles of Incorporation";
- Amendments to "External Party Lending, Guarantee and Endorsement Procedures";
- Establishment of the Company's "Employee Share Subscription Policy";
- Establishment of the Company's "Standard Operating Procedures for Resolving Directors' Requests";
- Amendments to the Company's "Internal Control System";
- Authorization to the Chairman for setting the cash dividend baseline date;
- Addition of motion to the Company's 2019 annual general meeting.

(3) Board Meeting of July 29, 2019:
- Issuance of new shares for cash;

- Arrangement of tender for the construction of production facilities and dormitory for the new Daxi Plant.

(4) Board Meeting of October 28, 2019:

- Establishment of the Company's “Trade Suspension and Resumption Procedures” ;
- Tender for construction of production facilities and dormitory for the new Daxi Plant;
- Termination of subsidiary - Pegavision Holdings Corporation;
- Investment using undistributed earnings;
- Application for medium-term and long-term loan facilities from banks;
- Appointment of acting spokesperson;
- Appointment of Corporate Governance Officer.

(5) Board Meeting of December 30, 2019:

- The 2020 operating plan and budget;
- The 2020 audit plan;
- Amendments to "Audit Committee Foundation Principles";
- Amendments to "Remuneration Committee Foundation Principles";
- Assessment of independence and appointment of financial statement auditor for 2020.

(6) Board Meeting of February 10, 2020:

- Allocation of employee remuneration for 2019;
- Allocation of director remuneration for 2019;
- 2019 financial statements, consolidated financial statements and business report;
- Distribution of cash dividends from 2019 earnings;
- Amendments to "Audit Committee Foundation Principles";
- Amendments to "Board of Directors Conference Rules";
- Amendments to "Shareholder Conference Rules";
- Establishment of subsidiary;
- Convention of 2020 annual general meeting, and acceptance of motion proposal from shareholders with more than 1% ownership interest;
- Passed the 2019 Statement of Internal Control System;
- Retirement/resignation of the Company's vice presidents.

3.3.13 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors during 2019 and as of the Date of this Annual Report: None.

3.4 CPA’s Information

Accounting Firm	CPA		Audit Period
Ernst & Young Taiwan	Wells Cheng	Eric Kuo	January 1, 2019~ December 31, 2019

Item / Amount Bracket	Audit Fee	Non-audit Fee	Total
NT$0 ~ NT$1,999,999		V	
NT$2,000,000 ~ NT$3,999,999	V		V
NT$4,000,000 ~ NT$5,999,999			
NT$6,000,000 ~ NT$7,999,999			
NT$8,000,000 ~ NT$9,999,999			
Over NT$10,000,000			

Unit: NT$ thousands

Accounting Firm	Name of CPA	Non-audit Fee					CPA's Audit Period	Remark
		System Design	Company Registration	Human Resource	Others	Subtotal		
Ernst & Young Taiwan	Wells Cheng Eric Kuo	-	7	-	45	52	01/01/2019 - 12/31/2019	Others: Asset write-off review fee, totaling NT$45,000

3.4.1 Non-audit remuneration to financial statement auditors, accounting firms and related businesses that amount to one-quarter or higher of audit remuneration: None.

3.4.2 Any replacement of accounting firm and reduction in audit remuneration paid compared with the previous year: None.

3.4.3 Any reduction in audit remuneration by more than 10% compared to the previous year: None.

3.4.4 Change of CPA: Not applicable.

3.4.5 Pegavision's Chairman, President, and Managers in Charge of Its Finance and Accounting Operations Who Had Hold Any Positions within Pegavision's Audit Firm or Its Affiliates in the Most Recent Year: None.

3.5 Net Change in Shareholding by Directors, Management and Shareholders with 10% Shareholdings or More

3.5.1 Net Change in Shareholding

Relationship with Pegavision	Name	2019		01/01/2020~03/27/2020	
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged
Chairman	T.H. Tung	-	-	-	-
Director	Peter Kuo	-	-	-	-
Director & Shareholder with 10% Shareholdings or More	Kinsus Investment Co., Ltd.	(855,000)	-	-	-
Representative of Kinsus Investment Co., Ltd. and President	TS Yang	65,000	-	-	-
Representative of Kinsus Investment Co., Ltd.	Scott Chen	(37,000)	-	-	-
Director & Shareholder with 10% Shareholdings or More	Asuspower Investment Co., Ltd.	(221,000)	-	-	-
Representative of Asuspower Investment Co., Ltd.	Jeffrey Wun	-	-	-	-
Representative of Asuspower Investment Co., Ltd.	Wen-Yong Hou	-	-	-	-
Independent Director	Eric Yao	-	-	-	-
Independent Director	Andrew T. Huang	-	-	-	-
Independent Director	Shu-Yu Lee	-	-	-	-
Vice President	Yuchin Lai	20,000	-	-	-
Vice President	Terry Chang	35,000	-	-	-
Senior Manager of Finance and Accounting Division	Tony Wang	25,000	-	-	-

3.5.2 Stock Trade with Related Party: None.

3.5.3 Stock Pledge with Related Party: None.

3.6 Relationship Party Relationship among Pegavision's 10 Largest Shareholders

As of October 4, 2019

Name	Current Shareholdings		Spouse & Minor Shareholdings		Pegavision Shareholdings by Nominee Arrangement		Name and Relationship between Pegavision's Shareholders	
	Shares	%	Shares	%	Shares	%	Name	Relationship
Kinsus Investment Co., Ltd. (Chairman: T.H. Tung)	21,233,736	30.33	-	-	-	-	Kinsus Investment Co., Ltd., Asuspower Investment Co., Ltd., Asustek Co., Ltd.	Chairman of these companies is the same person
Asuspower Investment Co., Ltd. (Chairman: T.H. Tung)	5,480,121	7.83	-	-	-	-		
Asustek Co., Ltd. (Chairman: T.H. Tung)	4,934,434	7.05	-	-	-	-		
Po-Wen Liu	4,843,000	6.92	-	-	-	-	-	-
Peter Kuo	1,928,868	2.76	360,249	0.51	-	-	Kinsus Investment Co., Ltd.,	Director
Teng-Yao Investment Co., Ltd.	1,291,458	1.84	-	-	-	-	-	-
(Chairman: Keng-Wei Chang)	-	-	-	-	-	-	-	-
Liang-Jung Hsu	1,039,400	1.48	120,900	0.17	-	-	-	-
T.H. Tung	645,729	0.92	-	-	-	-	Kinsus Investment Co., Ltd., Asuspower Investment Co., Ltd., Asustek Co., Ltd.	Chairman
Tien-Pao Chang	645,729	0.92	-	-	-	-	-	-
Yuchin Lai	543,857	0.78	350,143	0.50	-	-	Pegavision Corporation	Vice President

3.7 Long Term Investment Ownership

As of December 31, 2019

Long Term Investment	Ownership by Pegavision (1)		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Pegavision Holdings Corporation (Samoa)	3,630,000	100	-	-	3,630,000	100
Pegavision Contact Lenses (Shanghai) Corporation	-	100	-	-	-	100
Pegavision Japan Inc.	198	100	-	-	198	100
Gemvision Technology (Zhejiang) Limited	-	100	-	-	-	100

Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

Unit: Share | As of March 27, 2020

Type of Stock	Authorized Share Capital			Remarks
	Issued Shares	Unissued Shares	Total	
Common Stock	70,000,000	10,000,000	80,000,000	Listed

4.1.2 Capitalization

Unit: Share/NT$ | As of March 27, 2020

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Documents No.
08/2009	10	80,000,000	800,000,000	36,000,000	360,000,000	Initial Capital $360,000,000	None	Note 1
07/2012	10	80,000,000	800,000,000	18,000,000	180,000,000	Capital Reduction $180,000,000	None	Note 2
08/2012	10	80,000,000	800,000,000	36,000,000	360,000,000	Capital Increase in Cash $180,000,000	None	Note 3
11/2012	10	80,000,000	800,000,000	42,000,000	420,000,000	Capital Increase in Cash $60,000,000	None	Note 4
01/2014	15	80,000,000	800,000,000	50,000,000	500,000,000	Capital Increase in Cash $80,000,000	None	Note 5
09/2014	30	80,000,000	800,000,000	60,000,000	600,000,000	Capital Increase in Cash $100,000,000	None	Note 6
10/2019	152	80,000,000	800,000,000	70,000,000	700,000,000	Capital Increase in Cash $100,000,000	None	Note 7

Note:
1. 08/26/2009 Ministry of Economic Affairs Ching-Shou-Chung No. 09832938430
2. 07/17/2012 Ministry of Economic Affairs Ching-Shou-Chung No. 10132266400
3. 08/09/2012 Ministry of Economic Affairs Ching-Shou-Chung No. 10132358250
4. 11/22/2012 Ministry of Economic Affairs Ching-Shou-Chung No. 10132753120
5. 01/13/2014 Ministry of Economic Affairs Ching-Shou-Chung No. 10301006480
6. 09/10/2014 Ministry of Economic Affairs Ching-Shou-Chung No. 10301185990
7. 10/21/2019 Ministry of Economic Affairs Ching-Shou-Chung No. 10801143550

Shelf Registration: None.

4.1.3 Compostion of Shareholders

As of October 4, 2019

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions and Natural Persons	Total
Number of Shareholders	-	-	35	5,068	15	5,118
Shareholding	-	-	33,735,129	34,596,178	1,668,693	70,000,000
Holding Percentage	-	-	48.19	49.43	2.38	100

4.1.4 Distribution Profile of Share Ownership

Common Share/Par Value:NT$10/share As of October 4, 2019

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership Percentage
1-999	171	35,823	0.05
1,000-5,000	4,339	5,888,464	8.41
5,001-10,000	240	1,885,072	2.69
10,001-15,000	89	1,170,482	1.67
15,001-20,000	57	1,052,210	1.50
20,001-30,000	55	1,419,601	2.03
30,001-50,000	49	2,022,490	2.89
50,001-100,000	54	3,856,249	5.51
100,001-200,000	36	4,932,378	7.05
200,001-400,000	16	4,198,462	6.00
400,001-600,000	3	1,496,294	2.14
600,001-800,000	2	1,291,458	1.84
800,001-1,000,000	-	-	-
Over 1,000,001	7	40,751,017	58.22
Total	5,118	70,000,000	100

Preferred Shares: None.

4.1.5 Major Shareholders

Common Share As of October 4, 2019

Shareholder	Total Shares Owned	Ownership Percentage
Kinsus Investment Co., Ltd.	21,233,736	30.33
Asuspower Investment Co., Ltd.	5,480,121	7.83
Asustek Co., Ltd.	4,934,434	7.05
Po-Wen Liu	4,843,000	6.92
Peter Kuo	1,928,868	2.76
Teng-Yao Investment Co., Ltd.	1,291,458	1.84
Liang-Jung Hsu	1,039,400	1.48
T.H. Tung	645,729	0.92
Tien-Pao Chang	645,729	0.92
Yuchin Lai	543,857	0.78

4.1.6 Market Price, Net Worth, Earnings, and Dividends Per Common Share

Unit: NT$, except for weighted average shares and return on investment ratios

Item	2018 (Note1)	2019 (Note2)
Market Price Per Share		
Highest Market Price	Unlisted	183
Lowest Market Price	Unlisted	154.50
Average Market Price	Unlisted	169.29
Net Worth Per Share		
Before Distribution	33.46	57.91
After Distribution	31.96	55.41
Earnings Per Share		
Weighted Average Shares (thousand shares)	60,000	62,438
Diluted Earnings Per Share	9.02	7.62
Dividends Per Share		
Cash Dividends	1.50	2.50
Accumulated Undistributed Dividend	-	-
Return on Investment		
Price/Earnings Ratio	Unlisted	22.21
Price/Dividend Ratio	Unlisted	67.72
Cash Dividend Yield	Unlisted	1.48%

Note:
1. The Company's shares were not listed on TWSE or TPEx in 2018, hence no market price was available.
2. The cash dividend distribution of 2019 earnings has been passed by the board of directors but has yet to be reported in 2020 shareholder meeting.

4.1.7 Dividend Policy and Distribution of Earnings

Dividend Policy

When allocating the earnings after the close of each fiscal year , Pegavision shall first estimate and reserve the taxes to be paid, offset its losses, set aside a Legal Capital Reserve at ten (10) percent of the remaining earnings provided that the amount of Accumulated Legal Capital Reserve has not reached the amount of the paid-in Capital of the Corporation, then set aside a Special Capital Reserve in accordance with relevant laws, rules or regulations or as requested by the Competent Authority. The Proposal Concerning the Distribution of Earnings of the remaining amount and the Accumulated Retained Earnings is prepared by the Board of Directors and submitted to the shareholders' meeting for the decision of distribution or retaining.

If the above-mentioned dividends are distributed to shareholders in the form of cash, the Board of Directors have been authorized to approve by a resolution adopted by a majority vote at a meeting of Bord of Directors attended by two-thirds of the total number of directors, and report to the shareholder's meeting.

The distribution of dividends of Pegavision shall coordinate with earnings of the year based on the principle of stabilization. Due to the rapid changes in the industry, Pegavision shall adopt a Dividend Balancing Policy to distribute the cash dividend at the rate not less than ten (10) percent of the total distribution under Article 27-1 based on a plan of future capital needs and long term operation.

Proposal to Distribute 2019 Earnings

The 2019 earnings appropriation proposal, as shown below, has been adopted by the board of directors during the meeting held on February 10, 2020. This proposal shall be executed according to relevant rules once it is resolved during the annual general meeting scheduled on May 27, 2020.

Unit: NT$

Item	Amount
Beginning retained earnings	954,211,864
Add: Net income after tax in 2019	475,492,112
Subtotal	1,429,703,976
Appropriation items:	
Legal capital reserve (10%)	(47,549,211)
Special capital reserve	(4,557,373)
Distributable amount of 2019	1,377,597,392
Distribution:	
Cash dividends paid to common shareholders (NT$ 2.5 per share)	(175,000,000)
Unappropriated retained earnings	1,202,597,392

4.1.8 Impact to 2019 Business Performance and EPS Resulting from Stock Dividend Distribution:

Not applicable.

4.1.9 Compensation to Directors and Profit Sharing Bonus to Employees

Percentage or range of employee/director remuneration stated in the Articles of Incorporation

Pegavision shall set aside its profits of the period for which Pegavision distributes the earnings as compensation to its employees and Directors; provided, however, that Pegavision shall have reserved a sufficient amount to offset its Accumulated Losses as follows:

1. Not less than ten (10) percent to the employees, which may be distributed by way of cash or share. Pegavision may distribute the earnings to its employees of an affiliated company meeting the conditions set by the Board of Directors.
2. Not more than one (1) percent to the Directors.

Basis for estimating employee/director remuneration and stock dividends, and accounting treatments for any discrepancies between the amounts estimated and the amounts paid

Employee and director remuneration are determined based on the percentages outlined in the Articles of Incorporation, and estimated for each financial year. The Company recognized NT$71.933 million of employee remuneration and NT$6.255 million of director remuneration in 2019; both amounts were presented as part of salary expense. The board of directors meeting dated February 10, 2020 passed a resolution to distribute NT$71.933 million of employee remuneration and NT$6.255 million of director remuneration. Any difference between the amount estimated and the amount resolved by board of directors is recognized through next year's income statement.

Information of employee remuneration approved by board of directors in 2019

1. Amounts of employee cash remuneration, stock remuneration and director remuneration allocated:

	Amount allocated (NTD)
Employee remuneration - in cash	71,932,865
Director remuneration	6,255,000

2. Percentage of employee remuneration paid in shares, relative to net income and total employee remuneration shown in current standalone financial statements: Not applicable as all employee remuneration will be paid in cash.
3. Earnings per share after the effect of employee and director remuneration: Employee and director remuneration are expensed in the income statement, hence not applicable.

Distribution of employee/director remuneration in the previous year

Amount of 2018 employee remuneration, share-based compensation and director/supervisor remuneration resolved during board of directors meeting held on February 18, 2019:

	Amount allocated (NTD)
Employee remuneration	99,078,250
Director remuneration	8,612,000

The above director/supervisor remuneration and employee cash remuneration were expensed during the 2018 financial year. The actual amount of employee/director/supervisor remuneration paid in 2019 differed from the amount expensed in 2018 by a total of NT$3,499; this difference was recognized through income statement of the following year.

4.1.10 Buyback of Common Stock: None.

4.2 Issuance of Corporate Bond: None.

4.3 Preferred Share: None.

4.4 Issuance of Global Depositary Receipts: None.

4.5 Status of Employee Stock Option Plan: None.

4.6 Status of Employee Restricted Stock: None.

4.7 Status of New Share Issuance in Connection with Merger and Acquisitions: None.

4.8 Financing Plans and Implementation

The cash issue prior to listing was completed on October 4, 2019, and raised a total of NT$1,667,928,000. This capital has been used as working capital in the 4th quarter of 2019 and the 1st quarter of 2020 as planned.

Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

The Company currently produces and sells contact lenses under its proprietary brand and as an OEM for domestic and overseas customers. The following is an overview of main business activities:

1. CF01011 Medical Materials and Equipment Manufacturing
2. F108031 Wholesale of Drugs, Medical Goods
3. F208031 Retail sale of Medical Equipments
4. CE01030 Photographic and Optical Equipment Manufacturing
5. CE01010 Precision Instruments Manufacturing
6. F113030 Wholesale of Precision Instruments
7. F213040 Retail Sale of Precision Instruments
8. CC01040 Lighting Facilities Manufacturing
9. F113020 Wholesale of Household Appliance
10. F213010 Retail Sale of Household Appliance
11. F401010 International Trade
12. IG01010 Biotechnology Services
13. C802041 Drugs and Medicines Manufacturing
14. F108021 Wholesale of Drugs and Medicines
15. F208021 Retail Sale of Drugs and Medicines
16. JZ99060 Spectacles Shops
17. F110020 Wholesale of Spectacles
18. F210020 Retail Sale of Spectacles
19. F206020 Retail Sale of Articles for Daily Use
20. F106020 Wholesale of Articles for Daily Use
21. F208040 Retail Sale of Cosmetics
22. F108040 Wholesale of Cosmetics
23. F399990 Retail sale of Others
24. F203010 Retail sale of Food and Grocery
25. F102170 Wholesale of Food and Grocery
26. I401010 General Advertising Services
27. F399010 Convenience Stores
28. F301010 Department Stores
29. F301020 Supermarkets
30. I301010 Software Design Services
31. ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Current main products and weight:

Unit: NT$ thousands

Product \ Year	2018		2019	
	Net operating revenues	Weight (%)	Net operating revenues	Weight (%)
Contact lens	3,132,671	100	3,355,133	100
Total	3,132,671	100	3,355,133	100

Note: Includes other operating revenues related to contact lens

Current products (services) and purpose:

Product	Purpose or function
Contact lens	Currently, the Company produces disposable soft contact lenses of different water content and structure. 1. They are available in different disposal cycles including daily, weekly, fortnightly, monthly, quarterly and yearly. 2. By optical function, lenses can be classified into categories such as myopia, hyperopia, astigmatism, progressive, myopia control, and astigmatism with presbyopia. 3. By added features, lenses can be classified into categories such as colored lenses with cosmetic effect, lenses with vitamin B12, blue light-blocking lenses etc. 4. By moisturization method, lenses can be distinguished between hyaluronic acid-based and cell membrane-based moisturization systems. 5. Composite products, sandwiched toric cosmetic lens and sandwiched cosmetic progressive multifocal lens. The Company also provides contact lens-related services such as product design to customers in need.

New product (service) development plans:

1. Next-generation high oxygen permeability silicone hydrogel-based lens: The Company's silicone hydrogel-based monthly disposable lens offers higher oxygen permeability and better comfort compared to traditional hydrogel. Using chemical bonding technology, the Company is able to attach multiple layers of moisturizing and lubricant biotech materials onto lens surface, so that contact lenses may have high level of moisturization on the surface and high oxygen permeability inside at the same time. The product is believed to meets consumers' needs to a higher degree, and is distinctively distinguished from other silicone hydrogel-based lenses available on the market.

2. Higher water content blue light-blocking/UV lens: These lenses are mainly targeted at intensive users of consumer electronics for their ability to protect vision.

3. Progressive multifocal presbyopia contact lens: Contact lenses have grown popular in the last two decades or so due to sustained marketing efforts. Demands from mid-age and senior consumers are starting to surface, and multifocal lenses are being introduced to correct presbyopia that is prevalent within this age group. The Company has completed development of two mainstream multifocal products, center distance and center near, to satisfy the needs of mid-age and senior consumers.

4. Toric cosmetic contact lens: Cosmetic lenses with astigmatism correction function are introduced to give consumers more options.

5. Progressive multifocal cosmetic presbyopia lens: By applying cosmetic progressive multifocal sandwich technology, the Company is able to bring color options to presbyopia lenses for users aged 40 and above.

6. Daily disposable cosmetic silicone hydrogel-based lens: The Company applies sandwich technology to daily disposable cosmetic silicone hydrogel-based products to distinguish itself from other silicone hydrogel products available on the market, which are primarily in blue color. This technology not only opens up opportunities for existing cosmetic contact lenses, but also puts the Company ahead of competitors for being capable of adding a protective layer to daily disposable silicone hydrogel-based cosmetic lens through a sandwich structure.
7. Long-lasting moisturization lens: Extended moisturization will be one of the important technologies of contact lenses manufactured in the future, as consumers become accustomed to staring at consumer electronics for longer period of time. The Company has already invested into the development of such products for more than two years, and expects to complete development in 2020.
8. Myopia control lens: This product is designed to prevent myopia from worsening, and will be ready for launch once clinical trial has been completed.

5.1.2 Industry overview

Current and future industry prospects

1. Lens material: Silicone hydrogel has emerged as the mainstream material since 2010 due to the high oxygen permeability and better comfort they offer. In terms of surface treatment, moisturization and cosmetic are currently the main market trends.
2. Optics design: Contact lens was originally designed to correct vision problems such as: myopia, hyperopia, astigmatism and presbyopia, but as optical technologies mature, they enable more advanced designs that bring new opportunities to the market. From toric, progressive multifocal to myopia control lenses, these advanced designs have successfully expanded the age range of contact lens users and attracted consumers that contact lenses have failed to appeal in the past due to premature technology.
3. Evolution of lens color: Contact lenses were initially designed to be clear in color. They were first colored in blue to allow easy pickup from fluid, which eventually led to the development of iris enhancement lenses with colors. Today, the contact lens has become a fashion accessory that is essential to everyday makeup, and the production technology now focuses on the ability to print more complex patterns and colors.
4. By usage cycle: Contact lenses are designed to last for different cycles, from daily, weekly, fortnightly, monthly, quarterly, semi-annually to periods more than one year.

In terms of future market prospect, demand for functional, non-vision correcting contact lenses continue to grow, and products that exhibit the highest growth potentials include: blue light-blocking lenses for intensive computer users, lenses with fortified vitamin, lenses with hyaluronic acid moisturization, progressive lenses targeted at mid-age and senior consumers, and myopia control lenses - a step up from myopia correction.

According to Contact Lens Spectrum, value of the contact lens market was estimated at US$9 billion worldwide, and the U.S. market alone accounted for US$3 billion. Meanwhile, high-end products such as toric and progressive multifocal composite have grown consistently to account for 39% of the sale. Overall, the market is still in a state of growth, and may expand by approximately 6% worldwide in 2020.

Association between upstream, midstream, and downstream industry participants

Raw material suppliers represent the upstream of the contact lens industry. High polymers such as HEMA and silicone hydrogel are the main chemicals used in the production of contact lens.

Contact lens manufacturers represent the midstream, where key technologies such as optics design (for development of aspherical, toric, progressive and myopia control lenses), materials (Etafilcon, Polymacon, Omafilcon etc.), material integration (such as combination of MPC and HA) and automated production/testing differentiate manufacturers in terms of product quality, cost and competitiveness.

Manufacturers' ability to develop proprietary materials will be the key to competitiveness in the future. Considering the fact that HEMA has been in use since the 1960s, it is crucial for manufacturers to overcome patent restrictions and explore new materials that better satisfy the market' demand. The downstream comprises distributors, which can be further distinguished between physical retailers that interact directly with consumers, including optometrists, ophthalmologists, spectacle stores, pharmacy stores and supermarkets, and online merchants including web stores, online pharmacies and manufacturers' websites. However, due to the fact that contact lens is classified as a medical instrument, some countries have imposed strict prescription requirement on the purchase of contact lens, which makes online sales all the more difficult. Nevertheless, online shopping is the inevitable trend, and in the future, consumers will definitely have less restrictions purchasing standardized contact lenses online with a formal prescription than they do today. This shift in purchasing behavior is helpful to the growth of the contact lens market as a whole.

Product development trends

1. Contact lens material: According to Contact Lens Spectrum, 65% of contact lenses sold in 2019 were silicone hydrogel-based, whereas another 24% were hydrogel-based and 9% were GP-based. Despite having a minority market share, hydrogel still exhibits strong growing demand particularly in emerging markets and cosmetic contact lens due to price advantage. Although silicone hydrogel-based lenses offer higher permeability and better perceived health benefits, their high prices will prevent them from growing at the rate of hydrogel counterparts in emerging markets.
2. Cycle: According to data published by Contact Lens Spectrum for 2019, 39% of contact lenses sold in the U.S. were daily disposable, whereas the survey by GfK RETAIL AND TECHNOLOGY concluded the percentage at 41%. Daily disposable contact lenses are believed to be growing at a marginal rate. Meanwhile, demand for weekly (fortnightly) disposable lens has weakened, and monthly disposable lens still maintained a 36% share.
3. Special purpose contact lens: Special purpose contact lenses have the potential to reach new consumers outside myopia and hyperopia correction, and present a new breakthrough as far as human vision is concerned. The Company will continue investing into research and aim to develop unique features in some critical products.

(1) Blue light-blocking lens: As consumer electronics grow in popularity, prolonged exposure to blue lights emitted from screen puts users at higher risk of macular degeneration. By adding special dyes, contact lenses can be made to block 15~25% blue lights, a performance equal to or even surpasses blue light filter lenses. For people who are not accustomed to wearing spectacles, this new product presents an ideal alternative. Furthermore, the Company has been successful at introducing a new version of blue light-blocking contact lens that also blocks UV ray for double protection.

(2) Toric lens: The Asian market has always had a strong demand for cosmetic lenses, and given that the population with astigmatism represents 15% ~ 20% of the population with myopia in Asia, a large percentage of consumers had distanced themselves from cosmetic contact lenses due to their need for vision correction. In response, the Company has been obtaining product certifications in target markets since 2018, and plans to launch new sandwiched cosmetic toric lenses to accommodate this unchartered group of consumers in the future.

Demand for toric contact lenses has grown significantly year after year; according to GFK, usage-to-demand rate for toric lenses has risen to 30%, up 9% from 2018.

(3) Presbyopia lenses: According to a report by U.S. CDC (Center for Disease Control), presbyopia is prevalent among the 40~45 age group. It is a condition where the lens inside the eyeball loses its flexibility with age, so that when a patient tries to see something close, the lens could not flex enough to make a curve that focuses light onto the retina, which causes blurry image up close. Through collaboration with customers, the Company is able to once again break through the limitations of existing optics design and develop multifocal lenses that enable users to see

objects near and far at the same time. This product has been launched in the United State and is seeing growing sales. The Asian market has strong demand for cosmetic lenses, but in senior age groups where presbyopia is prevalent, consumers tend to require vision correction and become unable to use cosmetic lenses. The Company hopes to address this unfilled demand with the launch of sandwiched cosmetic progressive multifocal lenses.

(4) Vitamin-based solution: Daily disposable contact lenses generally use saline as the solution. It is only in the last two years that manufacturers started adding moisturization to the solution for better comfort. The Company, on the other hand, added vitamin E, B6 and B12 to nourish the eyeball, which makes its product a better choice for the health-aware. This product has attracted the attention of large manufacturers not only because of vitamin infusion, but also for the appealing pink color.

(5) Sandwiched colored lens: This technology is gradually becoming the standard for mass-market cosmetic contact lenses, which makes safety the utmost priority. In addition to expanding capacity of the sandwiching technology, the Company will also attempt to apply this technology on other high-end products, and give high-end users more beauty selections to choose from.

Market competition

1. Materials: Hydrogel is already popular and demand for which is near saturation in major regions around the world such as North America, Europe, Japan, Taiwan and Korea. Use of hydrogel in cosmetic contact lenses has been widely popular in Asian markets; in Japan and Taiwan, zero diopter cosmetic contact lenses accounted for 15~20% of all cosmetic contact lenses sold, meaning that the young population uses cosmetic contact lenses as part of their overall makeup even when they do not require vision correction. In developing countries or regions where contact lenses are less popular, such as China and Southeast Asia, hydrogel-based products still enjoy strong demand growth due to price advantage. As for regions where demand is near saturation, as mentioned above, growth will be shifting towards silicone hydrogel, which offers up to 7 or 8 times the oxygen permeability and makes a great difference when worn over an extended period of time. However, due to the use of silicon for oxygen transfer, silicone hydrogel is a more rigid material compared to traditional hydrogel, which makes comfort and production cost the two most challenging problems to overcome as well as the two key factors to success.
2. Cycles: Average wearing time for soft contact lenses has shortened and sale of long-term wear lenses (such as yearly, semi-annually and quarterly disposable) is falling consistently as consumers try to avert the hassle and worry of daily cleaning. Combined with the drop in price of daily disposables, the latter is gradually becoming the market's mainstream. Monthly and fortnightly disposables may still account for a relatively high percentage in weaker economies or regions where the price of silicone hydrogel remains high; but even in these markets, monthly disposables still out-sold fortnightly disposables. This is due to the fact that consumers tend to lose track of how long they have worn their lenses, and have switched to one lens a day/month for easy tracking. As a result, it is important for manufacturers to focus on making daily or monthly disposables of high performance-to-price ratio.
3. Optics design: As contact lenses become popular, lens design increases in complexity, and what was once used solely to correct myopia or hyperopia now offers additional functions such as correction of astigmatism. According to Contact Lens Spectrum, revenues from toric lenses account for a quarter of all contact lenses sold. Meanwhile, contact lenses designed specifically for people with presbyopia are gradually being noticed and accepted by consumers due to extensive promotional efforts from the 4 major brands. Functional contact lenses take time to adapt and often do not result in instant improvement of vision compared to lenses that are designed to correct a single condition. Consumers who wear presbyopia contact lenses for the first time tend to be disappointed by the marginal improvement, which discourages them from further use. To address this shortcoming, manufacturers are exploring ways to simplify optics design, and Universal ADD, a solution jointly developed between the Company and its U.S. partner, for example, smoothens the transition between near, medium and far objects. This new innovation is being rewarded with growing sales in the United States. Early adopters of contact lens have aged to the point where presbyopia is prevalent, and considering that they have already adapted to contact lenses, the Company expects

growing demand for presbyopia contact lenses in the future. The challenge now lies in manufacturers' ability to improve optics design and production procedures using advanced optical technology while bringing additional features at affordable prices.

The Company has been investing into the research and certification of myopia control lenses since 2019 to pave way for high-end products in the future.

As contact lens materials and optics designs mature, manufacturers will have to develop products at greater level of sophistication in order to compete with the rest of the world. Increased automation, flexibility and quality control will undoubtedly become the main challenges and focus for the entire industry, and since contact lenses require proper license to market, the Company will aim to obtain product certifications as complete as possible for the target markets and support brand partners with its high degree of production flexibility.

5.1.3 Technological research and development

Annual R&D expenses

Unit: NT$ thousands; %

Year	R&D expense (A)	Net revenues (B)	(A)/(B)(%)
2019	279,802	3,355,133	8.34

Technologies or products successfully developed in 2019

1. Production technology development: smart packaging system, highly automated dry lens production system, and AI-based testing system.
2. Product development: sandwiched cosmetic wide-angle toric lens, sandwiched cosmetic center near progressive lens, and multi-layer moisturized high oxygen permeability silicone hydrogel-based lens.

5.1.4 Long and short-term business plans

Short-term business plans

1. Brand promotion

(1) Taiwan:

Channel expansion and sales enhancement remained the two main focuses in 2019. In terms of the distribution channel, the Company managed to expand distribution from Cosmed and OK Mart to other open-shelf pharmacies including Tomod's and JP Med during the year. The Company aims to push products to a wider range of pharmacy stores in 2020 while at the same time increase the variety of products sold. In terms of sales enhancement, several co-branded products were introduced in conjunction with Japanese partners in 2019, including CRUUM series, the JILL STUART series, and Rakuten Japan's top-selling RêVIA series. The Company currently offers the broadest range of Japanese brands compared to other distribution channels in Taiwan. Sale of progressive multifocal clear daily disposable contact lenses commenced at branches to meet the needs of different consumers, while a broader range of colored disposable lenses were introduced under the proprietary brand, including the JHAKA series and the Bumo Macaron series, to help establish the Company's position in fast fashion.

(2) Overseas:

For the Pegavision flagship store on TMall, China, the Company will be cooperating with the Museum of Fine Arts, Boston, in 2020 to introduce artist series products including Czech artist Alphonse Mucha and French artist Monet.

The use of world-renowned IPs will help raise awareness of the Pegavision brand in China and arouse discussion among consumers. In the meantime, long cycle lenses will be introduced to satisfy the needs of different consumer groups.

As for the Pegavision mini-store on WeChat, the Company will aim to attract more Pegavision fans on China's largest social network platform through more frequent update of online contents and interactive campaigns in 2020. By enhancing user attachment, the Company will be able to tap into the potentials of China's young consumer group.

In 2019, the Company made its first attempt at distributing products of a Japanese brand, through strong e-merchants and retailers in China. For this particular arrangement, retailers were selected and awarded exclusive rights specifically to match the characters of each brand under the Japanese brand, and the approach has proven successful at increasing market share in iris enhancement lenses. The Company will continue focusing on colored daily disposables in 2020 while at the same time introduce products of other cycles for a more complete lineup of the Pegavision brand. To further increase market share of the Pegavision brand, the Company introduced several sub-brands including Forest Miracle to e-merchants. Featuring a "forest girl" design, these sub-brands first entered the market in the form of daily disposables and will progressively expand into a full lineup. They are marketed using distinctive background stories with the support of complementary accessories to appeal to consumers of more diverse characters and age groups, which will prove effective in expanding dimensions of the Pegavision brand.

An e-commerce website was established in Hong Kong specifically to serve consumers in Hong Kong and Macao, and some of the Company's products successfully made their ways into eye fashion stores in Hong Kong. In light of strong economic growth in Southeast Asia, the Company is also actively exploring ways to grow its share in the Southeast Asian market.

2. OEM service

(1) Japan

Contact lens is a matured market in Japan, one that is characterized by an ever-expanding variety of distribution channels. In addition to contact lens specialty stores, pharmacies and online merchants, too, have joined in on the sale of contact lenses to great success. Meanwhile, eyeglass chain stores are starting to introduce contact lenses under their own brands, including the leading express eyewear brand and Pegavision's partner since the last year. All Japanese customers that the Company cooperates with have growing confidence towards the quality of the Pegavision brand, to the point that they are willing to entrust Pegavision for the planning and development of new brands. The Company is confident about appealing to customers that are not yet in cooperation with Pegavision over the short term, and expects to see new business relationships develop throughout this year.

(2) Europe

The Company expects to attain certification for its proprietary monthly disposable silicone hydrogel-based products in the second quarter of 2020. This high-end product offers high water content, comfort and high oxygen permeability that make it an ideal OEM solution to local customers. Meanwhile, development of toric and presbyopia contact lenses helps expand market share of daily disposable hydrogel-based products, and can be adopted by brands to complement their existing product lineup.

(3) USA

Still dominated by the four major brands, the U.S. market is starting to see a shift in share due to the arrival of new brands. Online brands including Hubble, Waldo and 1-800-contact and proprietary brands introduced by eyewear chain stores such as Warby Parker not only gave consumers more options to choose from, but also made contact lenses more accessible than ever before. In addition to developing new proprietary brands, Pegavision will also explore opportunities to develop new products in cooperation with technology partners. In the meantime, the

Company will be seeking certification for silicone hydrogel-based products in the U.S., given that more than 70% of first-time and returning purchases in this market are silicone hydrogel-based.

(4) China

Sale of iris enhancement lenses still dominated the Chinese market, and with online channels surpassing physical channels in sales in 2019, it is apparent that e-merchants have emerged as a more popular and convenient form of marketing and sale in China. China currently has nearly 600 million people with myopia, and only 7%~8% of whom wear contact lenses, which suggest enormous room for growth. To grow this under-developed market, Pegavision has made consistent efforts to convey the quality and variety of products offered and work with local brands and distributors to promote use of contact lenses. Aside from OEM service, Pegavision will also assist Japanese customers in terms of manufacturing, branding and distribution to grow the Chinese market.

Long-term business plans

1. Promotion of proprietary brand

Products offered by the Company have been well-recognized among consumers for their quality, which is reflected by an increasing number of loyal users. In order to make products accessible to a greater number of consumers, the Company will be actively pushing products through open-shelf pharmacies and eyewear stores, while at the same time invest into advertising and marketing communication to arouse consumers' interest in the Company and the products it offers.

In terms of product strategy, the Company will focus on bringing more advanced features making better quality clear lenses in addition to the progressive multifocal clear daily disposables currently available. As for colored lenses, the Company will be working with Japanese customers to continue OEM for existing series such as Ninagawa Mika, FLAMMY, REVIA, CRUUM and JILL STUART, and bring more new series into Taiwan or through other available channels, so that consumers who have a preference for Japanese designs are able to purchase products in Taiwan and other Asia Pacific regions.

For China, Hong Kong and Macao, the Company will be adjusting its product lines while enhancing marketing communication through its flagship store on TMall. Collaboration will also be made with a greater number of online and offline distributors for market development.

Sustained economic growth in Southeast Asia has resulted in an increase of private spending that drives demand for contact lenses, and the Company is in midst of seeking product certification in countries throughout Southeast Asia and engaging local distributors for possible business opportunities. In the end of 2019, the Company made a successful venture into the Malaysian market, where it commenced sale of Pegavision and co-branded products from Japan. The Company expects to market its proprietary brand to other countries and begin growing market presence outside Europe and USA starting this year.

2. Overseas customer development and market expansion

In terms of OEM service, the Company will aim to promote products developed under Pegavision and contribute expertise to help customers develop distinctive competitive advantages in the market. For this reason, product diversity and completeness of product line are essential to Pegavision's long-term success, and the Company prides itself for the following expertise:

(1) Development of colored lens:

Pegavision constantly improves its product development capacity on all aspects including lens pattern, foil and package design. Furthermore, promotional materials such as webpage, visual concept and video are produced to tell stories that complement the underlying product. The Company not only is capable of working with customer's design team, but also has the ability to present complete advertising solutions on its own.

(2) Joint development of new products:

Pegavision has been able to refine its expertise on product, material, procedure and equipment R&D through experience since it was first incorporated. Today, the know-how and know-who have become two of Pegavision's most prominent advantages in new product development, and its ability to attract customers and partners of competent technical expertise makes new products and new market opportunities possible.

(3) Channel cooperation:

Pegavision works with Chinese channels in addition to its own branches to help promote the Pegavision brand as well as brands of its OEM customers in the Chinese market. The Company also coordinates with major distributors to expand the local contact lens market wherever it operates.

5.2 Market, Production and Sales Overview

5.2.1 Market analysis

Locations where products are mainly sold

Unit: NT$ thousands; %

Year / Sales destination	2018		2019	
	Amount	Percentage (%)	Amount	Percentage (%)
Domestic sale	731,980	23.37	771,905	23.01
Export sale	2,400,691	76.63	2,583,228	76.99
Total	3,132,671	100.00	3,355,133	100.00

Market share

According to the latest study published by CooperVision, a large manufacturer of contact lenses, the global contact lens market was estimated to have expanded to US$8.9 billion in 2019, and the Company generated NT$3.355 billion in revenues during the year, representing a 1.2% market share. Driven by sustained strong growth of both branded and OEM products, the Company foresees further increase of market share in the future.

Future market supply, demand and growth

According to a report published by Robert W. Baird & Co., growth of contact lens was mainly driven by three products: silicone hydrogel, toric lens, and progressive multifocal. The high oxygen permeability of silicone hydrogel-based materials makes them a healthier choice compared to traditional hydrogel. In Europe and USA, nearly 70% of contact lens prescriptions written by physicians or optometrists recommend silicone hydrogel. Meanwhile, statistics has shown that nearly 80% of myopia patients exhibit some degree of astigmatism, and since toric lenses are conventionally designed with 10 diopters per axis, most manufacturers tend to avoid keeping excess inventory on hand, leaving the top 4 brands the only ones capable of meeting the needs of astigmatism patients. The lack of supply resulted in the overpricing of toric contact lenses, so much so that some astigmatism patients even chose to compensate for astigmatism by wearing myopia lenses of a higher diopter. As growth of myopia lens saturates, brand owners will be forced to reduce price of toric contact lenses for market share, and thereby driving the growth of toric lenses. Progressive multifocal lenses can be optically designed to correct myopia, hyperopia and presbyopia; some optometrists even use them to correct astigmatism, while many others take advantage of the center for progressive multifocal design to correct myopia for children. Although the laws and license do not permit claim of myopia control for children, physicians are starting to recommend usage among children to prevent deterioration of myopia. The expanding application of progressive multifocal contact lens may provide a key driver to the contact lens market in the future.

The Company is currently preparing to launch its new toric lens, multifocal presbyopia contact lens, and next-generation high oxygen permeability silicone hydrogel-based lens under the Pegavision brand, and thereby provide customers with a more comprehensive selection of high quality and comfortable contact lenses that are made in Taiwan. The Company is also confident about the success of these products overseas, and aims to build global reputation with them.

Competitive advantage

1. Strong focus on core business activities and availability of a proprietary R&D team that specializes in automated production technology, material development and optics design.

   The Company has always valued the importance of a strong R&D team and its growth since inception. This R&D team has contributed significantly to the development of new production technologies, raw materials and automated production machinery to date, including the growing number of patents and product certifications worldwide. The management team possesses strong expertise on the main business and has extensive experience on environmental changes, product trends, production, marketing and R&D to help the Company develop competitiveness and new products over time. Owing to the contribution of its employees, the Company is starting to lead the market in new trends and is capable of competing in greater depth and breadth. As global shipment of high-end optics commences, the Company grows confident about the success of its patented new toric lens, which will appeal to our customers as a more competitive offering and to consumers as a higher value alternative. Through mutual benefits, we hope to engage customers and end users in a long-term and sustainable business relationship.

2. Success of proprietary brand brings new customers

   For nearly 8 years since it opened its first branch in Taiwan, the Company has accumulated more than 750,000 members and managed to deliver record-high sales year after year through its TMall flagship store in the Mainland. As a result, some customers grew confident towards the Company's ability to make, design and develop quality products and operate an efficient distribution network, so much so that they looked forward to working with the Company on OEM and ODM+OEM arrangement. At Pegavision, growth of the proprietary brand works in complement with OEM service.

3. Unique production procedures that raised overall customer service capacity

   The Company designs many of its automated production equipment that, when combined with an ERP and a cloud management system, enable optimal use and control of production resources. This level of cohesion enables the Company to deliver OEM/ODM orders of small volume in wide variety in a timely manner, which shortens customers' waiting period by more than half when compared to other competitors. Having been certified for world-approved quality management system for medical devices (ISO13485) ensures that all medical instruments and services offered are in conformity with customers' and legal requirements. This quality management system is applicable to the design, research, development, production, installation, sale and servicing of medical instruments.

4. Production automation and cost advantages from economy of scale

   Daily disposable contact lens is currently the mainstream, and the high level of standardization makes it ideal for mass production. Furthermore, given that the Company's production line operates at high level of automation compared to the competition, the Company has the advantage to achieve economy of scale and reduce cost over the long term. Judging by pricing and frequency of replacement alone, daily disposable contact lenses have the potential to generate enormous profits on a sustained basis. This quickly recurring consumption pattern is rare and difficult to replicate, and benefits manufacturers with higher degree of automation over the long term.

5. Rigorous certification

   Contact lens is classified as a medical instrument, and due to its direct contact with the eyeball, health authorities around the world have imposed rigorous reviews on the production and sale of contact lenses for safety reasons. Manufacturers and retailers are required to pass certification of the local health authority and obtain permit before commencing sale of product in that particular country. There are two types of certification: system certification and product certification. System certifications such as ISO13485, GMP and QMS (Japan) are awarded for the quality of the overall production procedure, and are generally broad standards. Product certification, on the other hand, involves reviews on the specification, safety and effectiveness of product sold, which requires supporting data on physical/chemical characteristics, GLP report on biocompatibility and clinical evaluation etc. to prove that a product is able to meet safety and functional requirements of the authority. A product can be sold on the market only after it has passed review and obtained permit, and the rigorous process tends to take longer time to complete. In addition to system certifications such as ISO13485, ISO14001, OHSAS18001, GMP (Taiwan) and QMS (Japan), many of the Company's products have also been awarded product certifications by CE (European Union), FDA (USA), NMPA (China), TFDA (Taiwan), PMDA (Japan), MFDS (Korea) and ASEAN countries. These certifications are a testament to the Company's rigorous production procedures and outstanding product quality, which helps expand markets locally and abroad.

Future opportunities, threats, and response strategies

1. Opportunities

(1) Production automation and automated optical testing system

The Company has designed its own fully automated optical testing system that greatly improves production efficiency and product quality. The Company is able to eliminate human involvement from mold injection to the completion of dry lens, while at the same time keeping quality consistent.

(2) Professional talents in materials, optics, equipment and product design

The Company has the ability to develop new materials, proprietary/unique optics designs and customized equipment, and offer OEM/ODM services owing to a team of motivated and highly talented individuals. Currently more than 70% of employees hold a college degree (diploma) or above. The senior management possesses extensive experience in the field of contact lens and actively recruits from all over the world. Through internal training and knowledge transfer, the Company hopes to build a team of professional talents that helps expand business into the global market and improve competitiveness over time.

(3) A closed industry with high barrier of entry

Contact lens is classified as a medical instrument and is therefore governed by medical instrument regulations. The long product development cycle, differences in regulation, difficulty involved with certification, the technology-intensive nature of the business, the complexity of lens design (involving ophthalmology, optometry and physical optics) and synthesis of high polymer materials all make contact lens an oligopoly with high barrier of entry. Fortunately, contact lens has a relatively long product life cycle, and the Company has been able to improve competitiveness through OEM, ODM, research, development and operation of a proprietary brand.

2. Threats

(1) Markets are dominated by few international manufacturers

The market's top 4 contact lens brands control most of the market share, and their strong brand image presents significant competitive barrier anywhere in the world. Together, they leave very little room for local brands to survive or for newcomers to thrive.

<u>Response strategies:</u>

The market's top 4 brands operate with such a large scale and profound reputation that makes them less flexible to change, and in some regions their extensive history may even pose a burden on distribution. In contrast, the Company specializes in flexible production and prides its ability to adopt different business models for various market segments. For example, the Company operates in Taiwan with a proprietary brand and markets itself as the contact lens pioneer with local branch presence; in other regions, however, the Company approaches the market through introduction of sub-brands and utilizes different channels combined with flexible business model and pricing strategies to develop close relationship with customers; this flexible approach will be further supported by quick decision-making and response to appeal to customers worldwide.

Japan represents the world's second largest contact lens market. Despite having strong demand for daily disposables, the market is very highly regulated compared to others. For this reason, the top 4 brands are the only foreign manufacturers to have products certified for sale in Japan, and any other foreign manufacturer seeking to capture a piece of the market will have to cooperate with Japanese manufacturers in an OEM or ODM arrangement. After attaining certification for blue and colored lenses with 58% water content, the Company is able to provide OEM service directly to Japanese brands and take advantage of express eyewear stores, a newly emerging sales channel. In the meantime, the Company is working with other major manufacturers to develop new products that would help gain an early market advantage and secure business partnership.

(2) New product development takes time; laws and certification vary from country to country and often pose high barrier of entry

Contact lens is classified as a medical instrument and is therefore governed by medical instrument regulations. The long product development cycle, differences in regulation and the difficulty and high costs associated with certification all present barriers of entry into the contact lens market.

<u>Response strategies:</u>

The Company has a dedicated legal team in place to handle the different licensing requirements and regulations between countries. The team has proven capable of obtaining license and product certification in many countries around the world, thereby allowing the Company to build a complete product lineup for the ultimate one-stop shopping experience.

5.2.2 Main product applications and production processes

Main product applications

Contact lens is the Company's primary product. Its main purposes are to correct vision defects such as myopia, hyperopia, astigmatism and presbyopia.

Production process

Production process is summarized below and may vary for different product categories

1. Injection of upper and lower lids ⇨ 2. Transfer printing (for colored lens) ⇨ 3. Gel injection ⇨
4. Solidification ⇨ 5. Lid removal ⇨ 6. Hydration ⇨
7. Sealing ⇨ 8. Sterilization ⇨ 9. Packaging

5.2.3 Supply of key materials

Key materials used in products include HEMA, PP, aluminum foil and packaging materials. The Company maintains good relationship with all its suppliers and has never experienced any shortage or disruption of supply. Suppliers have been able to make timely deliveries of consistent quality, and the Company expects no shortage of raw material supply in the future.

5.2.4 Major Suppliers and Main Customers

Suppliers Accounting for at Least 10% of Annual Consolidated Net Procurement

Unit: NT$ thousands

2018				2019			
Supplier	**Procurement Amount**	**As % of 2018 Total Net Procurement**	**Relation to Pegavision**	**Supplier**	**Procurement Amount**	**As % of 2019 Total Net Procurement**	**Relation to Pegavision**
Company A	69,390	15.70	None	Company B	41,005	15.25	None
Company B	51,808	11.72	None	Company E	35,474	13.20	None
Company C	48,346	10.94	None	Company C	34,532	12.85	None
Company D	44,252	10.01	None	Company A	20,381	7.58	None
Company E	38,942	8.81	None	Company D	19,580	7.28	None
Others	189,252	42.82	-	Others	117,850	43.84	-
Total Net Procurement	441,990	100.00	-	Total Net Procurement	268,822	100.00	-

A change in product portfolio resulted in a change of raw materials used and inventory level, and caused shifts in the weight of major suppliers.

Customers that Accounted for at Least 10% of Annual Consolidated Net Revenue

Unit: NT$ thousands

Customer	2018			2019		
	Net Revenue	**As % of 2018 Total Net Revenue**	**Relation to Pegavision**	**Net Revenue**	**As % of 2019 Total Net Revenue**	**Relation to Pegavision**
Customer A	386,968	12.35	None	443,976	13.23	None
Customer B	357,148	11.40	None	Note	-	None
Others	2,388,555	76.25	-	2,911,157	86.77	-
Total Net Revenue	3,132,671	100.00	-	3,355,133	100	-

Note: Net sales to the customer accounted for less than 10% of group consolidated net revenues, hence no disclosure was made.

The Company is currently in its growth stage, and revenue weight of its main buyers may shift as new regions, markets and customers are acquired.

5.2.5 Production in 2019 and 2018

Unit: Capacity/Output (thousand boxes / Amount(NT$ thousands)

Contact Lenses			
Year	**Capacity**	**Output**	**Amount**
2019	21,629	17,562	1,679,790
2018	27,950	25,229	1,778,720

5.2.6 Shipments and Net Revenue in 2019 and 2018

Unit: thousand boxes / NT$ thousands

	Domestic		Export	
Year	Shipment	Net Revenue	Shipment	Net Revenue
2019	3,587	711,905	19,629	2,583,228
2018	3,215	731,980	15,791	2,400,691

Note: Includes other operating revenues related to contact lens.

5.3 Human Capital

5.3.1 Workforce Structure

		12/31/2018	12/31/2019	03/27/2020
Employee Number	General	1,384	1,178	1,141
	R&D	95	203	193
	Total	1,479	1,381	1,334
Education	Ph.D.	0.74%	0.87%	0.67%
	Master's	7.71%	8.54%	9.15%
	Bachelor's	62.81%	64.16%	64.02%
	High School	26.37%	24.11%	23.69%
	Below High School	2.37%	2.32%	2.47%
Average Years of Age		30.80	31.59	31.73
Average Years of Service		2.40	3.16	3.29

5.3.2 Employee Relations

Employee welfare measures and implementation in 2019

1. Benefits offered by the Company: Labor/National Health Insurance, group insurance, employee pension contribution, regular health checkup, travel subsidy, meal, uniform, year-end bonus, performance bonus and profit-sharing.
2. Benefits offered by Employee Welfare Committee: Year-end banquet, birthday credits, Duanwu Festival credits, Mid-autumn Festival credits, Labor Day credits, employee discounts, Family Day, and wedding/funeral subsidies.
3. Employee training and education: The Company has training programs in place to help employees develop professional knowledge and skills, which in turn maximizes work capacity, efficiency and quality to support the Company's growth and sustainability goals. The Company offered a broad diversity of training programs, including orientation, on-job training, employee safety and health training, specialist courses and external courses that are relevant to employees' duties in 2019. Together, the Company provided complete means for employees to develop the professional capacity and competitiveness needed to succeed in their roles. In addition to the above, the Company also emphasizes on exploring employees' potentials and balanced characters, and arranged a series of

courses in 2019 targeted at building "soft power" and fundamental characters that may eventually contribute to professional skills.

4. Employee leave: The Company has "Employee Leave of Absence Policy" in place to protect employees' rights to leave of absence. In terms of care for family life, employees were granted the following leaves in 2019:

Unit: number of employees

Gender	Maternity leave	Paternity leave	Family care leave	Pre-natal screening leave	Unpaid parental leave
Male	0	15	8	0	4
Female	29	0	22	24	13
Total	29	15	30	24	17

5. Retirement system and implementation: The Company complies with "Labor Pension Act" (i.e. the New Scheme) and makes monthly contributions equal to 6% of employees' salary into their dedicated pension accounts held with Bureau of Labor Insurance. Employees also have the option to make voluntary pension contributions up to 6% of monthly salary, which are fully deductible when filing Individual Income Tax Return. For employees who are subject to the old pension scheme stated in "Labor Standards Act" (i.e. the Old Scheme), the Company makes monthly contributions at 2% of employees' taxable salary to the labor pension fund account held with the Trust Department of Bank of Taiwan to satisfy their retirement needs.

6. Labor-management coordination: All policies in this respect have been established in compliance with Labor Standards Act. The Company respects employees' opinions and has open channels in place to facilitate bilateral communication. By enabling internal communication, we hope to maintain a harmonic and interactive relationship that benefits both the employer and employees.

7. Protection of employees' interests: The Company has a complete set of documents in place that outline the Company's management policies and employees' rights, obligations and benefits. Benefits are reviewed and revised regularly for employees' best protection.

Employees' safety, protection measures in work environment and implementation

The Company has developed an occupational safety and health management system based on international standards such as ISO 14001 and OHSAS 18001. It performs occupational safety and health planning, hazard identification, risk assessment, tier management, accident investigation and auditing on a regular basis, and has robust incident reporting and response procedures in place to address accidents and emergencies, and thereby prevent impacts on the environment and ensures employees' safety. Emergency response drills and operating environment monitoring were conducted in the first and second halves of 2019 to improve employees' crisis response and to identify potential hazard in the work environment. The occupational safety and health committee held a total of four meetings to review execution of the occupational safety and health management system, and thereby assure employees a safe working environment.

Losses arise as a result of employment disputes in 2019and up until the publication date of annual report (including violations against Labor Standards Act found during labor inspection; explain the date of penalty, reference number, the laws violated, the violating action, and the nature of penalty): None.

5.4 Contribution to environmental protection

Losses arising as a result of pollution in the last year up until the publication date of annual report (disclose details on the amount of penalty, outcome of environmental audit, the violation, date of decision, correspondence number, the violated laws, and the authority's decision); provide an estimate of the losses incurred or expected and explain any response measures planned, and state reasons if losses cannot be estimated reliably: The Company did not encounter any loss (including compensation) or penalty due to pollution in 2019 and up until the publication date of annual report.

5.5 Material Contracts

As of March 27, 2020

Nature of contract	Parties involved	Contract start/end date	Main Content	Restrictive clauses
Lease Agreement	Pegatron Corporation	2015/09/01-2020/08/31	Plant leasing	None
Long-term borrowing contract (terminated)	Shanghai Commercial and Savings Bank Zhongli Branch	2018/03/31-2019/10/15	Long-term borrowing	None
Long-term borrowing contract (terminated)	Mega International Commercial Bank Lanya Branch	2018/05/10-2019/07/17	Long-term borrowing	None
Long-term borrowing contract (terminated)	Mega International Commercial Bank Lanya Branch	2018/06/05-2019/05/07	Long-term borrowing	None
Long-term borrowing contract (terminated)	Chang Hwa Bank Beitou Branch	2018/10/09-2019/10/04	Long-term borrowing	None
Long-term borrowing contract (terminated)	Shanghai Commercial and Savings Bank Zhongli Branch	2019/01/08-2019/12/05	Long-term borrowing	Land as collateral
Long-term borrowing contract (terminated)	Mega International Commercial Bank Lanya Branch	2019/02/25-2019/05/07	Long-term borrowing	None
Construction contract	Lih Hwa Construction Company Limited	2019/08/28 - inspection upon completion	Daxi Plant construction	None
Purchase agreement	Lih Hwa Construction Company Limited	2019/08/28 - 2020/08/27	Materials for Daxi Plant construction	None
Long-term borrowing contract	Chang Hwa Commercial Bank Beitou Branch	2020/03/25-2025/03/15	Long-term borrowing	To perform in accordance with Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan

Financial Highlights and Analysis

6.1 Condensed Balance Sheet and Statement of Comprehensive Income

6.1.1 Condensed Balance Sheet from 2015 to 2019 (Audited)

Consolidated Balance Sheet

Unit: NT$ thousands

Item \ Year	2015	2016	2017	2018	2019 (Note)
Current Assets	722,647	1,125,314	1,227,355	1,560,422	1,987,183
Property, Plant and Equipment	942,322	769,010	1,473,095	2,059,794	3,029,925
Intangible Assets	4,522	2,254	632	2,306	4,536
Other Assets	51,305	30,839	208,406	524,882	288,061
Total Assets	1,720,796	1,927,417	2,909,488	4,147,404	5,309,705
Current Liabilities					
Before Distribution	502,600	586,053	1,394,621	1,645,351	1,188,472
After Distribution	502,600	646,053	1,394,621	1,735,351	1,363,472
Noncurrent Liabilities	175,573	115,913	47,435	494,211	67,528
Total Liabilities					
Before Distribution	678,173	701,966	1,442,056	2,139,562	1,256,000
After Distribution	678,173	761,966	1,442,056	2,229,562	1,431,000
Equity Attributable to Shareholders of the Parent	1,042,623	1,225,451	1,467,432	2,007,842	4,053,705
Capital Stock	600,000	600,000	600,000	600,000	700,000
Capital Surplus	240,000	240,000	240,000	240,000	1,804,928
Retained Earnings					
Before Distribution	202,124	389,015	631,923	1,173,079	1,558,571
After Distribution	202,124	329,015	631,923	1,083,079	1,383,571
Other Equity Interest	499	(3,564)	(4,491)	(5,237)	(9,794)
Total Equity					
Before Distribution	1,042,623	1,225,451	1,467,432	2,007,842	4,053,705
After Distribution	1,042,623	1,165,451	1,467,432	1,917,842	3,878,705

Note: Distribution of 2019 cash dividends has yet to be reported in 2020 shareholder meeting.

Unconsolidated Balance Sheet

Unit: NT$ thousands

Item \ Year	2015	2016	2017	2018	2019 (Note)
Current Assets	681,035	1,085,487	1,171,016	1,601,205	1,854,618
Investment accounted for using equity method	39,973	38,521	52,867	10,200	62,539
Property, Plant and Equipment	942,287	767,832	1,472,233	2,057,132	3,023,144
Intangible Assets	4,522	2,254	632	2,306	4,536
Other Assets	49,210	28,750	206,253	522,370	268,442
Total Assets	1,717,027	1,922,844	2,903,001	4,193,213	5,213,279
Current Liabilities					
Before Distribution	498,831	581,480	1,388,133	1,645,260	1,103,208
After Distribution	498,831	641,480	1,388,133	1,735,260	1,278,208
Noncurrent Liabilities	175,573	115,913	47,436	540,111	56,366
Total Liabilities					
Before Distribution	674,404	697,393	1,435,569	2,185,371	1,159,574
After Distribution	674,404	757,393	1,435,569	2,275,371	1,334,574
Equity Attributable to Shareholders of the Parent	1,042,623	1,225,451	1,467,432	2,007,842	4,053,705
Capital Stock	600,000	600,000	600,000	600,000	700,000
Capital Surplus	240,000	240,000	240,000	240,000	1,804,928
Retained Earnings					
Before Distribution	202,124	389,015	631,923	1,173,079	1,558,571
After Distribution	202,124	329,015	631,923	1,083,079	1,383,571
Other Equity Interest	499	(3,564)	(4,491)	(5,237)	(9,794)
Total Equity					
Before Distribution	1,042,623	1,225,451	1,467,432	2,007,842	4,053,705
After Distribution	1,042,623	1,165,451	1,467,432	1,917,842	3,878,705

Note: Distribution of 2019 cash dividends has yet to be reported in 2020 shareholder meeting.

6.1.2 Condensed Statement of Comprehensive Income from 2015 to 2019 (Audited)

Consolidated Statement of Comprehensive Income

Unit: NT$ thousands

Item / Year	2015	2016	2017	2018	2019
Net Revenue	1,307,616	1,659,336	2,182,174	3,132,671	3,355,133
Gross Profit	669,505	840,167	1,049,593	1,605,355	1,493,030
Income from Operations	136,812	236,863	356,764	791,067	592,114
Non-operating Income and Expenses	16,542	(2,029)	9,819	(30,611)	(31,259)
Income before Income Tax	153,354	234,834	366,583	760,456	560,855
Net Income	127,110	186,891	302,908	541,156	475,492
Other Comprehensive Income for the Year, Net of Income Tax	85	(4,063)	(927)	(746)	(4,557)
Total Comprehensive Income for the Year	127,195	182,828	301,981	540,410	470,935
Net Income (Loss) Attributable to:					
Shareholders of the Parent	127,110	186,891	302,908	541,156	475,492
Noncontrolling Interests	-	-	-	-	-
Total Comprehensive Income (Loss) Attributable to:					
Shareholders of the Parent	127,195	182,828	301,981	540,410	470,935
Noncontrolling Interests	-	-	-	-	-
Basic/Diluted Earnings Per Share	2.12	3.11	5.05	9.02	7.62

Unconsolidated Statement of Comprehensive Income

Unit: NT$ thousands

Item / Year	2015	2016	2017	2018	2019
Net Revenue	1,305,098	1,644,396	2,135,520	3,198,837	3,096,188
Gross Profit	672,989	819,106	999,068	1,614,067	1,291,735
Income from Operations	154,395	231,230	340,048	775,910	566,316
Non-operating Income and Expenses	(1,076)	3,431	24,256	(22,055)	(19,001)
Income before Income Tax	153,319	234,661	364,304	753,855	547,315
Net Income	127,110	186,891	302,908	541,156	475,492
Other Comprehensive Income for the Year, Net of Income Tax	85	(4,063)	(927)	(746)	(4,557)
Total Comprehensive Income for the Year	127,195	182,828	301,981	540,410	470,935
Basic/Diluted Earnings Per Share	2.12	3.11	5.05	9.02	7.62

6.1.3 Auditors' Opinions

Year	Accounting Firm	CPA	Audit Opinion
2015	Ernst & Young Taiwan	Mars Hong, Chi-Ming Chang	An Unmodified Opinion
2016	Ernst & Young Taiwan	Mars Hong, Chi-Ming Chang	An Unmodified Opinion
2017	Ernst & Young Taiwan	Mars Hong, Wells Cheng	An Unmodified Opinion
2018	Ernst & Young Taiwan	Wells Cheng, Eric Kuo	An Unmodified Opinion
2019	Ernst & Young Taiwan	Wells Cheng, Eric Kuo	An Unmodified Opinion

6.2 Financial Analysis

6.2.1 Financial Analysis from 2015 to 2019 (Consolidated)

		2015	2016	2017	2018	2019
Capital Structure Analysis	Debts Ratio (%)	39.41	36.42	49.56	51.59	23.65
	Long-term Fund to Property, Plant and Equipment (%)	129.28	174.43	102.84	121.47	136.02
Liquidity Analysis	Current Ratio (%)	143.78	192.02	88.01	94.84	167.20
	Quick Ratio (%)	76.17	136.65	62.60	45.35	118.97
	Times Interest Earned (Times)	34.45	69.56	127.80	77.64	30.04
Operating Performance Analysis	Average Collection Turnover (Times)	23.32	18.42	19.13	20.34	15.05
	Days Sales Outstanding	15.65	19.81	19.07	17.94	24.25
	Average Inventory Turnover (Times)	2.40	2.64	3.60	2.70	2.76
	Average Inventory Turnover Days	11.06	11.97	12.46	14.44	17.22
	Average Payment Turnover (Times)	152.08	138.25	101.38	135.18	132.24
	Property, Plant and Equipment Turnover (Times)	1.68	1.94	1.95	1.77	1.32
	Total Assets Turnover (Times)	0.79	0.91	0.90	0.89	0.71
Profitability Analysis	Return on Total Assets (%)	7.95	10.40	12.62	15.57	10.38
	Return on Equity Attributable to Shareholders of the Parent (%)	12.98	16.48	22.50	31.14	15.69
	Operating Income to Paid-in Capital Ratio (%)	25.56	39.14	61.10	126.74	80.12
	Net Margin (%)	9.72	11.26	13.88	17.27	14.17
	Earnings Per Share (NT$)	2.12	3.11	5.05	9.02	7.62
Cash Flow	Cash Flow Ratio (%)	70.51	25.40	74.97	67.53	65.00
	Cash Flow Adequacy Ratio (%)	38.19	47.79	83.02	72.28	68.86
	Cash Flow Reinvestment Ratio (%)	20.57	7.20	39.73	27.96	11.46
Leverage	Operating Leverage	2.52	2.03	1.75	1.65	2.16
	Financial Leverage	1.03	1.01	1.01	1.01	1.03

Analysis of deviation of 2019 vs. 2018 over 20%:

1. Debt-to-asset ratio decreased: Mainly due to decreases in long-term loan and equipment payable and increases in property, plant and equipment in 2019 over 2018.
2. Current ratio increased: Mainly due to increases in cash and cash equivalents and financial assets at fair value through profit or loss, and decreases in short-term loan, contractual liabilities, accounts payable, other payables, current income tax liabilities and other current liabilities in 2019.
3. Quick ratio increased: Mainly due to increases in cash and cash equivalents, financial assets at fair value through profit or loss and net accounts receivable, and decreases in short-term loan, contractual liabilities, accounts payable, other payables, current income tax liabilities and other current liabilities in 2019.
4. Interest coverage ratio decreased: Mainly due to additional borrowings undertaken in 2019 out of capital requirement, increased interest expenses and a drop in pre-tax profit for 2019.
5. Receivables turnover rate decreased: Mainly due to higher average receivable balance in 2019 compared to 2018.
6. Average cash collection days increased: Mainly due to lower receivables turnover rate in 2019 compared to 2018.
7. Property, plant and equipment turnover rate decreased: Mainly due to higher average net value of property, plant and equipment in 2019 compared to 2018.
8. Total asset turnover rate decreased: Mainly due to higher average total asset in 2019 compared to 2018.
9. Return on assets decreased: Mainly due to lower net income and higher average total asset in 2019 compared to 2018.
10. Return on equity decreased: Mainly due to higher average total equity in 2019 compared to 2018.
11. Pre-tax profit to paid-up capital ratio decreased: Mainly due to higher paid-up capital and lower pre-tax profit in 2019.
12. Cash reinvestment ratio decreased: Mainly due to higher property, plant and equipment and higher working capital in 2019 that reduced cash flow from operating activities, followed by distribution of cash dividends.
13. Operating leverage increased: Mainly due to lower operating profits in 2019.

Note 1: Based on audited financial statements in the last 5 years.

Note 2: Receivable and inventory turnover rates are being calculated using net receivables and net inventory instead.

Note 3: No calculation was made if cash flow from operating activities resulted in a net outflow.

* Glossary

1. Capital Structure Analysis
   (1) Debt Ratio = Total Liabilities / Total Assets
   (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment
2. Liquidity Analysis
   (1) Current Ratio = Current Assets / Current Liabilities
   (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses
3. Operating Performance Analysis
   (1) Average Collection Turnover = Net Sales / Average Trade Receivables
   (2) Days Sales Outstanding = 365 / Average Collection Turnover
   (3) Average Inventory Turnover = Cost of Sales / Average Inventory
   (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
   (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
   (7) Total Assets Turnover = Net Sales / Average Total Assets
4. Profitability Analysis
   (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
   (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
   (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
   (5) Net Margin = Net Income / Net Sales
   (6) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
5. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)
6. Leverage
   (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
   (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

6.2.2 Financial Analysis from 2015 to 2019 (Unconsolidated)

		2015	2016	2017	2018	2019
Capital Structure Analysis	Debts Ratio (%)	39.28	36.27	49.45	52.12	22.24
	Long-term Fund to Property, Plant and Equipment (%)	129.28	174.69	102.90	123.86	135.95
Liquidity Analysis	Current Ratio (%)	136.53	186.68	84.36	97.32	168.11
	Quick Ratio (%)	69.04	132.85	60.34	53.65	120.82
	Times Interest Earned (Times)	34.45	69.51	127.01	76.98	29.34
Operating Performance Analysis	Average Collection Turnover (Times)	20.09	18.06	15.99	10.77	7.24
	Days Sales Outstanding	18.16	20.21	22.82	33.89	50.41
	Average Inventory Turnover (Times)	2.43	2.72	3.80	3.13	2.99
	Average Inventory Turnover Days	10.90	12.06	12.51	14.98	16.69
	Average Payment Turnover (Times)	150.20	134.19	96.05	116.61	122.07
	Property, Plant and Equipment Turnover (Times)	1.68	1.92	1.91	1.81	1.22
	Total Assets Turnover (Times)	0.79	0.90	0.89	0.90	0.66
Profitability Analysis	Return on Total Assets (%)	7.97	10.43	12.65	15.48	10.44
	Return on Equity Attributable to Shareholders of the Parent (%)	12.98	16.48	22.50	31.14	15.69
	Operating Income to Paid-in Capital Ratio (%)	25.55	39.11	60.72	125.64	78.19
	Net Margin (%)	9.74	11.37	14.18	16.92	15.36
	Earnings Per Share (NT$)	2.12	3.11	5.05	9.02	7.62
Cash Flow	Cash Flow Ratio (%)	76.19	26.47	71.84	66.86	59.29
	Cash Flow Adequacy Ratio (%)	40.33	50.29	83.09	73.43	67.08
	Cash Flow Reinvestment Ratio (%)	22.06	7.45	40.21	27.69	9.47
Leverage	Operating Leverage	2.37	2.07	1.78	1.79	2.12
	Financial Leverage	1.03	1.02	1.01	1.01	1.04

Analysis of deviation of 2019 vs. 2018 over 20%:

1. Debt-to-asset ratio decreased: Mainly due to decreases in long-term loan and increases in property, plant and equipment in 2019 over 2018.
2. Current ratio increased: Mainly due to increases in cash and cash equivalents and financial assets at fair value through profit or loss, and decreases in short-term loan, contractual liabilities, accounts payable, other payables, current income tax liabilities and other current liabilities in 2019.
3. Quick ratio increased: Mainly due to increases in cash and cash equivalents and financial assets at fair value through profit or loss, and decreases in short-term loan, contractual liabilities, accounts payable, other payables, current income tax liabilities and other current liabilities in 2019.
4. Interest coverage ratio decreased: Mainly due to additional borrowings undertaken in 2019 out of capital requirement, increased interest expenses and a drop in pre-tax profit for 2019.
5. Receivables turnover rate decreased: Mainly due to higher average receivable balance in 2019 compared to 2018.
6. Average cash collection days increased: Mainly due to lower receivables turnover rate in 2019 compared to 2018.
7. Property, plant and equipment turnover rate decreased: Mainly due to higher average net value of property, plant and equipment in 2019 compared to 2018.
8. Total asset turnover rate decreased: Mainly due to higher average total asset in 2019 compared to 2018.
9. Return on assets decreased: Mainly due to lower net income and higher average total asset in 2019 compared to 2018.
10. Return on equity decreased: Mainly due to higher average total equity in 2019 compared to 2018.
11. Pre-tax profit to paid-up capital ratio decreased: Mainly due to higher paid-up capital and lower pre-tax profit in 2019.
12. Cash reinvestment ratio decreased: Mainly due to higher property, plant and equipment and higher working capital in 2019 that reduced cash flow from operating activities, followed by distribution of cash dividends.

Note 1: Based on audited financial statements in the last 5 years.

Note 2: Receivable and inventory turnover rates are being calculated using net receivables and net inventory instead.

Note 3: No calculation was made if cash flow from operating activities resulted in a net outflow.

* Glossary

4. Capital Structure Analysis
   (1) Debt Ratio = Total Liabilities / Total Assets
   (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

5. Liquidity Analysis
   (1) Current Ratio = Current Assets / Current Liabilities
   (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

6. Operating Performance Analysis
   (1) Average Collection Turnover = Net Sales / Average Trade Receivables
   (2) Days Sales Outstanding = 365 / Average Collection Turnover
   (3) Average Inventory Turnover = Cost of Sales / Average Inventory
   (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
   (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
   (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
   (7) Total Assets Turnover = Net Sales / Average Total Assets

7. Profitability Analysis
   (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
   (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
   (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
   (5) Net Margin = Net Income / Net Sales
   (6) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

8. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

9. Leverage
   (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
   (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

6.3 Audit Committee's Review Report

Pegavision Corporation

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 Business Report, Financial Statements, and proposal for allocation of earnings. The CPA firm of Ernst & Young Taiwan was retained to audit Pegavision's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Pegavision Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Pegavision Corporation

Chairman of the Audit Committee: Andrew T. Huang

February 10, 2020

6.4 Consolidated Financial Statements of 2019 and 2018

Please refer to Annex: Consolidated Financial Statements for the Years end December 31, 2019 and 2018 and Independent Auditors' Report.

6.5 Unconsolidated Financial Statements of 2019 and 2018

Please refer to Annex: Parent Company Only Financial Statements for the Years end December 31, 2019 and 2018 and Independent Auditors' Report.

6.6 Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2019 and as of the date of this Annual Report: None.

Financial Status and Operating Result

7.1 Financial Status (Consolidated)

Unit: NT$ thousands

Item	2019	2018	Difference	%
Current Assets	1,987,183	1,560,422	426,761	27.35%
Property, Plant and Equipment	3,029,925	2,059,794	970,131	47.10%
Right-of-use Assets	166,708	-	166,708	N/A
Intangible Assets	4,536	2,306	2,230	96.70%
Other Assets	121,353	524,882	(403,529)	-76.88%
Total Assets	5,309,705	4,147,404	1,162,301	28.02%
Current Liabilities	1,188,472	1,645,351	(456,879)	-27.77%
Noncurrent Liabilities	67,528	494,211	(426,683)	-86.34%
Total Liabilities	1,256,000	2,139,562	(883,562)	-41.30%
Capital Stock	700,000	600,000	100,000	16.67%
Capital Surplus	1,804,928	240,000	1,564,928	652.05%
Retained Earnings	1,558,571	1,173,079	385,492	32.86%
Other Equity Interest	(9,794)	(5,237)	(4,557)	87.02%
Total Equity	4,053,705	2,007,842	2,045,863	101.89%

Analysis of Deviation over 20%

(1) Current assets: Mainly explained by increases in cash and cash equivalents and financial assets at fair value through profit or loss in 2019.

(2) Property, plant and equipment: Mainly explained by purchase of land and plants in 2019.

(3) Right of use assets: Recognized mainly due to adoption of IFRS 16 - Leases since 2019.

(4) Other assets: Mainly explained by a decrease of prepaid equipment in 2019.

(5) Current liabilities: Mainly explained by decreases of short-term loan, contractual liabilities, other payables, current income tax liabilities and other current liabilities in 2019.

(6) Non-current liabilities: Mainly explained by a decrease of long-term loan in 2019.

(7) Capital surplus: Mainly explained by premiums received from cash issue in 2019

(8) Retained earnings: Mainly explained by constantly profitable in 2019.

Major Impact on Financial Performance

The above deviations had no major impact on Pegavision’s financial position.

7.2 Financial Performance (Consolidated)

Unit: NT$ thousands

Item	2019	2018	Difference	%
Net Revenue	3,355,133	3,132,671	222,462	7.10%
Cost of Revenue	(1,862,103)	(1,527,316)	-334,787	21.92%
Gross Profit	1,493,030	1,605,355	-112,325	-7.00%
Operating Expenses	(900,916)	(814,288)	-86,628	10.64%
Income from Operations	592,114	791,067	-198,953	-25.15%
Non-operating Income and Expenses	(31,259)	(30,611)	-648	2.12%
Income before Income Tax	560,855	760,456	-199,601	-26.25%
Income Tax Expenses	(85,363)	(219,300)	133,937	-61.07%
Net Income	475,492	541,156	-65,664	-12.13%
Other Comprehensive Income (Loss), Net of Income Tax	(4557)	(746)	-3,811	510.86%
Total Comprehensive Income for the Year	470,935	540,410	-69,475	-12.86%

Analysis of Deviation over 20%

(1) Operating cost: The increase in operating cost was largely in line with revenue growth in 2019.

(2) Operating profit and pre-tax profit: Mainly explained by higher increases of operating cost and operating expense relative to revenues in 2019.

(3) Income tax expense: Mainly explained by lower taxable income in 2019.

The above deviations had no major impact on Pegavision's financial position.

Sales Volume Forecast and Related Information

Please refer to "Letter to Shareholders".

Major Impact on Financial Performance

The above deviations had no major impact on Pegavision's financial performance.

Future Plan on Financial Performance

Not applicable.

7.3 Cash Flow (Consolidated)

Unit: NT$ thousands

Item	2019	2018	Difference	%
Net Cash Provided by Operating Activities	777,520	1,111,172	-333,652	-30.03%
Net Cash Used in Investing Activities	(1,191,429)	(1,828,833)	637,404	-34.85%
Net Cash Provided by Financing Activities	806,626	563,139	243,487	43.24%

Analysis of Cash Flow

(1)Net cash inflow from operating activities reduced by NT$333.652 million: this was mainly attributed to lower pre-tax profit and higher balance of financial assets at fair value through profit or loss in 2019 compared to the previous year.

(2) Net cash outflow from investing activities reduced by NT$637.404 million: this was mainly attributed to lower amounts of property, plant and equipment acquired in 2019 compared to the previous year.

(3) Net cash inflow from financing activities increased by NT$243.487 million: this was mainly attributed to equity issues made in the current year.

Remedial Actions for Liquidity Shortfall

Not applicable.

Cash Flow Projection for Next Year

Not applicable.

7.4 Recent Years Major Capital Expenditures and Impact on Financial and Business

The capacity expansion project was driven by growing demands for the Company's products, and has been funded using equity capital and bank borrowings. This expansion project will be adjusted flexibly depending on the growth of purchase orders, for which the Company has already sourced sufficient capital and credit facilities to finance accordingly. For this reason, capital expenditure should have no material impact on financial or business performance.

7.5 Investment Policy and Profit or Loss Incurred on Investments in 2019, and Investments Planned for 2020

7.5.1 Investment Policies

The Company's investment policies have been developed to cater for the needs of its core business and to support long-term strategies instead of short-term gains. Investment projects are planned primarily to expand sales channel and market share, and thereby support growth of proprietary brands and OEM service.

7.5.2 Profit or Loss Incurred on Investments in 2019

Unit: thousands

Long term Investment	Profit or loss in 2019	Main cause of profit (loss)	Improvement plans
Pegavision Holdings Corporation	NT$ (5,280)	Financial holding company, with investment in subsidiary - Pegavision Contatct Lenses (Shanghai) Corporation	None
Pegavision Contatct Lenses (Shanghai) Corporation	NT$ (5,231)	Loss on investment of Gemvision Technology (Zhejiang) Ltd. accounted using the equity method.	None
Gemvision Technology (Zhejiang) Limited	NT$ (5,261)	Marketing and business promotion expenses have been committed for active expansion of the Mainland market	None
Pegavision Japan Inc	NT$ 16,418	Business operations are considered strong	None

7.5.3 Investments Planned for 2020

The Company expects to establish subsidiaries in Taiwan and the USA at some time in 2020, but has yet to complete registration as of the publication date of annual report.

7.6 Evaluation of Risk Management Issues

7.6.1 Impact of Interest Rate, Exchange Rate, and Inflation on the Company's Earnings, and Response Measures

Interest Rate Fluctuation

- **Impact on the Company's earnings**

The Company's exposure to interest rate risk relates primarily to the Company's investments with variable interest rates and bank borrowings with fixed interest rates and variable interest rates. For items exposed to interest rate risk as of the end of the reporting period and presumed to be held for one accounting year, including investments and bank borrowing with variable interest rates, if interest rate increases/decreases by 1%, the consolidated net income (loss) for the years ended December 31, 2019 and 2018 would increase/decrease by NT$4,442 thousand and decrease/increase by NT$2,795 thousand, respectively.

- **Response measures**

The Company monitors bank borrowing rates on a regular basis and maintains good relationship with banks to make sure that loans are drawn at more favorable rates, and thereby reduce interest expenses. Changes in market interest rate are also monitored constantly to keep track of impact on the Company's capital and to facilitate proper responses. For the above reasons, interest rate changes should not cause any significant impact to earnings.

Foreign Exchange Volatility

- **Impact on the Company's earnings**

When NTD appreciates/depreciates against USD by 1%, the consolidated net income (loss) for the years ended 31 December 2019 and 2018 would decrease/increase by NT$979 thousand and NT$3,052 thousand, respectively; When NTD appreciates/depreciates against CNY by 1%, the consolidated net income (loss) for the years ended 31 December 2019 and 2018 would decrease/increase by NT$2,382 thousand and NT$2,981 thousand, respectively.
Although exchange rate changes have yet to pose any significant impact on the Company, exchange rate uncertainties may still affect the Company's revenues and profits to some degree.

- **Response measures**

A. All business units take exchange rate trends into consideration when submitting quotations to customers; quotations are adjusted dynamically to avoid significant impact on the Company's profits.
B. Purchases and expenses are paid in the same currency as sales revenue. Outstanding positions of foreign currency-denominated asset and liability are adjusted as deemed necessary to minimize risk of exchange rate change.
C. The finance department maintains close relationship with financial institutions and makes flexible adjustments to foreign currency positions by observing exchange rate changes and using exchange rate instruments.

Inflation

- **Impact on the Company's earnings**

According to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, annual increase (decrease) of consumer price index as of January 2020 was reported at 1.85%, which indicated no significant inflation. As of the publication date of annual report, the Company had not encountered any significant impact on earnings due to inflation.

- **Response measures**

A. The Company pays close attention to changes in raw material prices and maintains good interaction with suppliers to reduce impact on earnings. The Company also monitors research reports and economic data published by professional research and investment institutions and makes appropriate policy adjustments accordingly to mitigate the effect of inflation on earnings.

B. The Company is dedicated to reducing production cost through procedure advancements, and actively addresses inflation impact by developing high value-adding products of high gross profit margin. The Company adopts a dynamic pricing approach that adjusts selling prices as soon as the cost of raw material varies outside the tolerable range, which mitigates inflation impact by a significant degree.

7.6.2 Policies Associated with High-Risk/Highly Leveraged Investments; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

The Company has always adopted a pragmatic focus toward its core business and formulated internal policies out of conservatism. The organization does not engage in high-risk or highly leveraged investment, lending, endorsement, guarantee or derivative trading activity of any kind. Furthermore, "External Party Lending, Guarantee and Endorsement Procedures" and "Asset Acquisition and Disposal Procedures" are available to serve as guidance should a need arise in the future.

7.6.3 Future R&D Plans

The Company plans its product/technology developments not only in line with customers' and market's needs, but also out of forecast toward future industry trends, market growth and product/technology potentials. Below is a summary of the Company's development focus:

- **Automated production**

A. AI-based image examination technology is being developed to improve the precision of automated tests, and thereby improve product quality.

B. Production technology for refined color patterns will be further improved to increase details of patterns printed on cosmetic contact lenses.

C. An automated guided vehicle system will be introduced for higher production and labor efficiency, given the fact that cosmetic contact lenses are produced in wide variety at low volumes.

D. A smart packaging system will be developed to reduce the size of workforce required in packaging, and ensure that product information is properly checked and free of errors.

- **Optics design**

A. Next-generation ultra-precision production technologies will be adopted to enable toric surface design.

B. Improvements will be made to toric lenses for better comfort and more stable vision quality.

C. New progressive multifocal and myopia control lenses.

- **New materials and new products.**

A. Silicone hydrogel-based lenses of exceptional surface characteristics and low cost.

B. New cosmetic and blue light-blocking products

Expected R&D expenses

The Company expected to invest over NT$270 million into the R&D of various products and technologies in 2020 to ensure the Company's long-term competitiveness.

7.6.4 Financial Impacts and Response Measures in the Event of Changes in Local and Foreign Regulations

The Company complies with local and foreign regulations in all of its daily operations, pays constant attention to political and regulatory developments local and abroad, and gathers relevant information to support the management's decisions. Furthermore, the Company makes flexible changes to its operating strategy and is therefore able to prevent financial and business impact caused by changes in local and foreign regulations. The Company encountered no change in local or foreign policy/regulation that affected its financial or business performance in 2019 up until the publication date of this annual report.

7.6.5 Financial Impacts and Response Measures in the Event of Technological or Industrial Changes

The Company is mainly involved in the production of contact lenses, an industry that is prone to risk of substitute from two sources: 1. Intrusive surgeries including LASIK and contact lens implant, both of which unpopular among patients either because of non-reversibility (LASIK) or the regular need to replace implant through surgery; and 2. Spectacles, which are expected to maintain market share at best due to the lack of technological breakthrough. The Company foresees no substitute product or technology in the near future, and therefore expects no major financial or business impact from technological or industrial changes.

7.6.6 Crisis Management, Impacts, and Response Measures in the Event of a Change in Corporate Image

The Company has always devoted attention to its core business activities since inception, and values integrity, sustainability and compliance in all of its conducts. The Company earns recognition from consumers by producing high-quality products, and has not encountered any crisis caused by change of corporate image to date. However, occurrence of corporate crisis may still cause substantial damage to the organization, which is why the Company will continue to enforce sound corporate governance as means to minimize risks and impact.

7.6.7 Expected Benefits, Risks and Response Measures in Relation to Mergers and Acquisitions

The Company had no merger or acquisition planned in the last year or as of the publication date of this annual report. Any acquisition or merger planned in the future will be evaluated according to the Company's "Asset Acquisition and Disposal Procedures" to protect the Company's interests and interests of shareholders.

7.6.8 Expected Benefits, Risks and Response Measures Associated with Plant Expansions

The contact lens market is still in its growth stage, and apart from product development and global market expansion, the Company acquired land and plant premise in Daxi, Taoyuan, in 2019 and later commenced construction of new plant in October 2019. This additional production capacity allows the Company to meet growing market demands in the future, and therefore presents minimal risk.

7.6.9 Risks and Response Measures Associated with Concentrated Sales or Purchases

Purchases

Chemical materials, packaging materials and PP represent the majority of raw materials purchased by the Company. None of the above raw materials was monopolized by any supplier; hence, there should be no difficulty in acquiring. In addition to maintaining strong business relationship with existing suppliers, the Company also actively searches for new reliable suppliers and maintains adequate level of key materials at all times in case of force majeure or unexpected occurrence. The largest supplier accounted for only 15.25% and 15.70% of total purchase in 2019 and 2018, respectively. Raw material usage should change given the ongoing change in product portfolio, and main suppliers should account for a lower percentage as new suppliers are introduced. Overall, the Company does not expect any significant risk from concentrated or unstable supply.

Sales

The Company devotes significant attention to the design integration, manufacturing and after-sale of its products. In addition to maintaining relationship with existing customers, the Company also commits effort into exploring new customers, technology/procedure improvements, market demands and product applications, and ventures into new products and markets as a means to reduce sales concentration risk. The largest buyer accounted for only 12.35% and 13.23% of total revenues in 2019 and 2018, respectively, which showed no significant sign of concentration.

7.6.10 Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by Pergavision's Directors, and/or Major Shareholders Who Own 10% or More of Pegavision's Total Outstanding Shares: Not applicable.

7.6.11 Impacts, Risks and Response Measures Associated with a Change of Management: Not applicable.

7.6.12 Litigation and Non-Contentious Cases

None of the Company or its director, President, person-in-charge or subsidiary was involved in any ongoing litigations, non-contentious cases, or administrative litigations in 2019 up till the publication date of annual report, whether concluded or pending judgment, that may present significant impact to shareholders' interests or securities price. Shareholders with more than 10% ownership interest include subsidiaries of Pegatron Corporation (parent) and KINSUS Interconnect Technology Corp (parent). Please refer to annual reports of the respective companies for information on litigation and non-contentious cases.

7.6.13 Other Material Risks and Response Measures: None

7.7 Other Material Issues

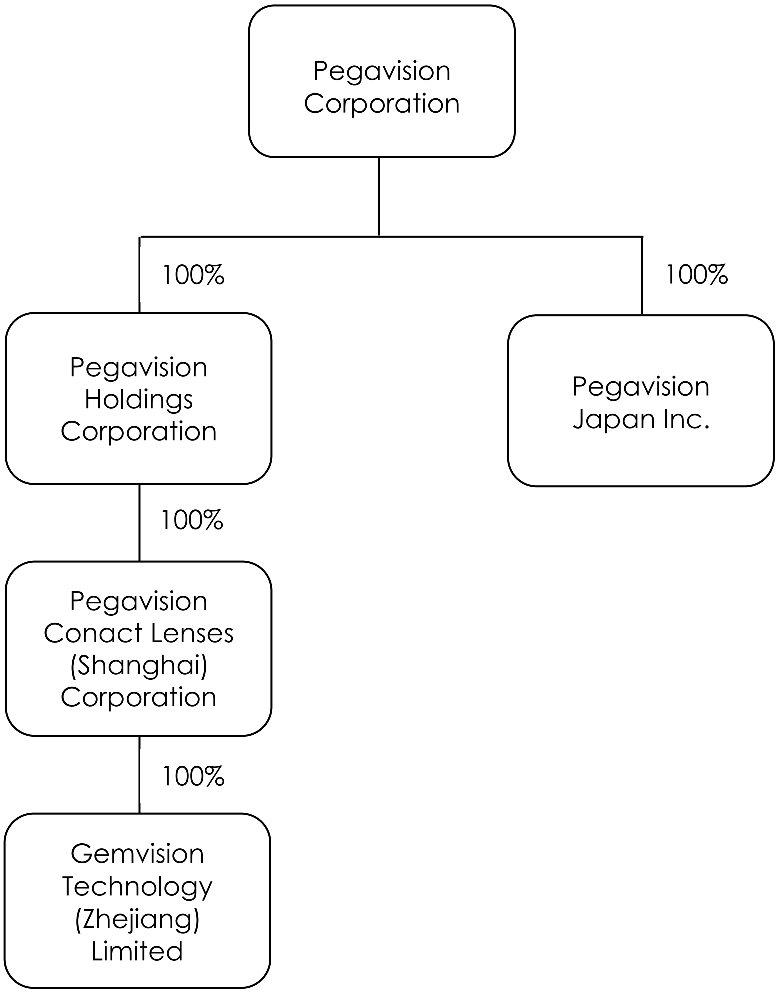
The Company had no other material issues subject to disclosure as of the publication date of annual report.

Subsidiary Information and Other Special Notes

8.1 Subsidiaries

8.1.1 Pegavision Subsidiaries Chart

As of December 31, 2019



8.1.2 Business Scope of Pegavision and Its Subsidiaries

Affiliated enterprises of the Company are mostly involved in research, development, manufacturing, wholesaling and retailing of contact lenses. Overseas holding companies are founded mainly to manage invested businesses.

8.1.3 Pegavision Subsidiaries

Unit: US$ (JPY, CNY) thousands

As of 12/31/2019

Company	Date of Incorporation	Place of Registration	Capital Stock		Business Activities
Pegavision Holdings Corporation	Nov. 28, 2011	Samoa	US$	3,630	Investment
Pegavision Contact Lenses (Shanghai) Corporation	Sep. 25, 2012	Shanghai, China	CNY	3,600	Selling of Medical Materials and Equipment
Pegavision Japan Inc,	May. 15, 2015	Japan	JPY	9,900	Selling of Medical Materials and Equipment and Providing Customer Services
Gemvision Technology (Zhejiang) Limited	Jan. 29, 2019	Zhejiang, China	CNY	10,000	Selling of Medical Materials and Equipment

8.1.4 Shareholders in Common of Pegavision and Its Subsidiaries with Deemed Control and Subordination: None.

8.1.5 Rosters of Directors, Supervisors, and Presidents of Pegavision's Subsidiaries

As of 12/31/2019

Company	Title	Name	Shareholding	
			Shares	%
Pegavision Holdings Corporation	Director	Pegavision Corporation (Rep.: Chi-Liang, Chen)	3,630,000	100%
Pegavision Contact Lenses (Shanghai) Corporation	Director	Pegavision Holdings Corporation (Rep.: Tony Wang)	-	100%
Pegavision Japan Inc,	Director	Pegavision Corporation (Rep.: Gwendolyn Kao)	198	100%
Gemvision Technology (Zhejiang) Limited	Director	Pegavision Contact Lenses (Shanghai) Corporation (Rep.: Tony Wang)	-	100%

8.1.6 Operational Highlights of Pegavision Subsidiaries

Unit: NT$ thousands

As of 12/31/2019

Company	Capital Stock	Assets	Liabilities	%
Pegavision Holdings Corporation	113,416	99,819	-	99,819
Pegavision Contact Lenses (Shanghai) Corporation	112,559	253,854	154,563	99,291
Pegavision Japan Inc,	2,554	223,593	197,491	26,102
Gemvision Technology (Zhejiang) Limited	43,886	202,698	164,764	37,935

8.1.7 Status of Pegavision Common Shares Acquired, Disposed of, and Held by Subsidiaries:

None.

8.2 Special Notes

8.2.1 Private Placement Securities in 2019 and as of the Date of this Annual Report: None.

8.2.2 Any Events in 2019 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 3 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

8.2.3 Other Necessary Supplement: None.

Ticker: 6491

PEGAVISION CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
AS OF DECEMBER 31, 2019 AND 2018
AND FOR THE YEARS THEN ENDED

Address: No.5 Shing Yeh Street, GuiShan District, Taoyuan City, Taiwan 33341
Telephone: (03)329-8808

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

MANAGEMENT REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Pegavision Corporation as of December 31, 2019 and for the year then ended under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard No. 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Pegavision Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Pegavision Corporation

By

Tung, Tzu-Hsien
Chairman
February 10th, 2020

INDEPENDENT AUDITORS' REPORT

To : the Board of Directors and Shareholders of
Pegavision Corporation

Opinion

We have audited the accompanying consolidated balance sheets of Pegavision Corporation (the "Company") and its subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies (together referred as "the consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2019 and 2018, and its consolidated financial performance and cash flows for the years then ended, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

We determine that revenue recognition is one of the key audit matters. The Group's revenue amounting to NT$3,355,133 thousand for the year ended December 31, 2019 is a significant account to the Group's consolidated financial statements. The Group has conducted these sale activities in multi-marketplace, including Taiwan, China, Japan, etc. Furthermore, the timing of fulfilling performance obligation needs to be determined based on varieties of sale terms and conditions enacted in the main sale contracts or sale orders. We therefore conclude that there are significant risks with respect to the topic of revenue recognition.

Our audit procedures therefore include, but not limit to, evaluating the properness of accounting policy for revenue recognition, assessing and testing the effectiveness of relevant internal controls related to revenue recognition, sampling-test of details, including obtaining major sale orders or agreements to inspect the terms and conditions, checking the consistency of the fulfillment timing, performing analytical review procedures on sale revenues, and executing sale cut-off tests, etc. Besides, we evaluate whether the parameter which the management used as for the individual price estimates is appropriate and whether the trade price is allocated properly. We also recalculated the amount of the customer loyalty programmes as of December 31, 2019. We have also evaluated the appropriateness of the related disclosure in Note 6 to the consolidated financial statements.

Market valuation on Inventory

We determined the market valuation on inventory is also one of key audit matters. The Group's net inventory amounted to NT$549,992 thousand, representing 10% of total assets, as of December 31, 2019, which is significant to the Group's consolidated financial statements. The market of the Group's main products, is characterized by fierce competition and the trend of consumers' preference, management, in timely considering the status of new products development and the demand from clients, has to evaluate the loss due to market value decline as well as write-down on slow-moving inventories to their net realizable value.

Our audit procedures therefore include, but not limit to, evaluating the Group's policy with respect to assessment the loss from slow-moving inventory and phased-out items, (including identification

method, testing the accuracy of inventory aging schedule, analysis on inventory movement), evaluating the physical inventory stock take plan report provided by the management and choose the significant location to perform the observation, and inspecting the current status of inventory usage, etc. We also evaluated the appropriateness of related disclosure in the Note 5 and 6 to the consolidated financial statements.

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

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

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

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk

of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2019 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other

We have audited and expressed an unqualified opinion on the parent-company-only financial statements of the Company as of and for the years then ended December 31, 2019 and 2018.

*/s/*Cheng, Ching-Piao

*/s/*Kuo, Shao-Pin

Ernst & Young
Taiwan, R.O.C.
February 10th, 2020

Notice to Readers

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

Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

Pegavision Corporation and Subsidiaries

Consolidated Balance Sheets

As of December 31, 2019 and 2018

(Amounts Expressed In Thousands of New Taiwan Dollars)

Assets			As of December 31, 2019		As of December 31, 2018	
Code	Accounts	Notes	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4, 6(1)	$812,807	15	$429,999	10
1110	Financial assets at fair value through profit or loss	4, 6(2)	316,120	6	-	-
1136	Financial assets measured at amortized cost	4, 6(3)	-	-	75,281	2
1170	Accounts receivable, net	4, 6(4), 6(15), 7	253,311	5	192,424	5
1200	Other receivables		2,338	-	3,834	-
1310	Inventories, net	4, 6(5)	549,992	10	796,900	19
1410	Prepayments		23,275	-	17,310	-
1470	Other current assets		29,340	1	44,674	1
11xx	Total current assets		1,987,183	37	1,560,422	37
	Non-current assets					
1600	Property, plant and equipment, net	4, 6(6), 8, 9	3,029,925	57	2,059,794	50
1755	Right-of-use assets, net	4, 6(17)	166,708	3	-	-
1780	Intangible assets, net	4, 6(7)	4,536	-	2,306	-
1840	Deferred tax assets	4, 6(21)	4,689	-	2,817	-
1900	Other non-current assets	6(6), 6(8), 7, 8	116,664	3	522,065	13
15xx	Total non-current assets		3,322,522	63	2,586,982	63
1xxx	Total Assets		$5,309,705	100	$4,147,404	100

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

Pegavision Corporation and Subsidiaries
Consolidated Balance Sheets-(Continued)
As of December 31, 2019 and 2018
(Amounts Expressed In Thousands of New Taiwan Dollars)

Liabilities and Equity			As of December 31, 2019		As of December 31, 2018	
Code	Accounts	Notes	Amount	%	Amount	%
	Current liabilities					
2100	Short-term borrowings	6(9)	$128,914	3	$159,501	4
2130	Contract liabilities	6(15)	70,765	1	131,823	3
2150	Notes payable		3,730	-	1,179	-
2170	Accounts payable		99,619	2	111,716	3
2200	Other payables	6(10), 7	652,391	12	849,604	20
2230	Current tax liabilities	4, 6(21)	32,819	1	215,535	5
2280	Lease liabilities	4, 6(17)	113,937	2	-	-
2300	Other current liabilities	6(11), 6(12)	86,297	2	175,993	4
21xx	Total current liabilities		1,188,472	23	1,645,351	39
	Non-current liabilities					
2540	Non-current portion of long-term borrowings	6(12), 8	-	-	487,500	12
2570	Deferred tax liabilities	4, 6(21)	8,623	-	4,652	-
2580	Lease liabilities	4, 6(17)	58,143	1	-	-
2645	Guarantee deposits received		762	-	2,059	-
25xx	Total non-current liabilities		67,528	1	494,211	12
2xxx	Total liabilities		1,256,000	24	2,139,562	51
3100	Capital	6(14)				
3110	Common stock		700,000	13	600,000	14
3200	Capital surplus	6(14)	1,804,928	34	240,000	6
3300	Retained earnings	6(14)				
3310	Legal reserve		123,630	2	69,515	2
3320	Special reserve		5,237	-	4,491	-
3350	Unappropriated retained earnings		1,429,704	27	1,099,073	27
3400	Other equity interest		(9,794)	-	(5,237)	-
3xxx	Total equity		4,053,705	76	2,007,842	49
	Total liabilities and equity		$5,309,705	100	$4,147,404	100

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

Pegavision Corporation and Subsidiaries
Consolidated Statements Of Comprehensive Incomes
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Code	Items	Notes	2019 Amount	2019 %	2018 Amount	2018 %
4000	Operating revenue	4, 6(15)	$3,355,133	100	$3,132,671	100
5000	Operating costs	6(5), 7	(1,862,103)	(55)	(1,527,316)	(49)
5900	Gross profit		1,493,030	45	1,605,355	51
6000	Operating expenses	7				
6100	Selling expenses		(427,763)	(13)	(387,276)	(12)
6200	Administrative expenses		(195,045)	(6)	(186,263)	(6)
6300	Research and development expenses		(279,802)	(8)	(237,958)	(8)
6450	Expected credit gains (losses)	6(16)	1,694	-	(2,791)	-
	Operating expenses total		(900,916)	(27)	(814,288)	(26)
6900	Operating income		592,114	18	791,067	25
7000	Non-operating income and expenses	6(19)				
7010	Other income		12,739	-	10,304	-
7020	Other gains or losses		(21,841)	-	(30,993)	(1)
7050	Finance costs		(22,157)	(1)	(9,922)	-
	Total non-operating incomes and expenses		(31,259)	(1)	(30,611)	(1)
7900	Income from continuing operations before income tax		560,855	17	760,456	24
7950	Income tax	4, 6(21)	(85,363)	(3)	(219,300)	(7)
8200	Net income		475,492	14	541,156	17
8300	Other comprehensive income (loss)	6(20)				
8360	Items that may be reclassified subsequently to profit or loss					
8380	Exchange differences resulting from translating the financial statements of a foreign operation		(4,557)	-	(746)	-
	Total other comprehensive income, net of tax		(4,557)	-	(746)	-
8500	Total comprehensive income		$470,935	14	$540,410	17
9750	Earnings per share-basic (in NTD)	4, 6(22)	$7.62		$9.02	
9850	Earnings per share-diluted (in NTD)	4, 6(22)	$7.56		$8.93	

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

Pegavision Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2019 and 2018

(Amounts Expressed In Thousands of New Taiwan Dollars)

		Equity Attributable to Shareholders of the Parent						
				Retained Earnings				
		Capital	Capital Surplus	Legal Reserve	Special reserve	Unappropriated Earnings	Exchange differences arising on translation of foreign operations	Total Equity
Code	Items	3100	3200	3310	3320	3350	3410	3XXX
A1	Balance as of January 1, 2018	$600,000	$240,000	$39,224	$3,564	$589,135	$(4,491)	$1,467,432
	Appropriation and distribution of 2017 earnings							
B1	Legal reserve appropriated			30,291		(30,291)		-
B3	Special reserve appropriated				927	(927)		-
D1	Net income for 2018					541,156		541,156
D3	Other comprehensive income (loss) for 2018						(746)	(746)
D5	Total comprehensive income	-	-	-	-	541,156	(746)	540,410
Z1	Balance as of December 31, 2018	$600,000	$240,000	$69,515	$4,491	$1,099,073	$(5,237)	$2,007,842
A1	Balance as of January 1, 2019	$600,000	$240,000	$69,515	$4,491	$1,099,073	$(5,237)	$2,007,842
	Appropriation and distribution of 2018 earnings							
B1	Legal reserve appropriated			54,115		(54,115)		-
B3	Special reserve appropriated				746	(746)		-
B5	Cash dividends-common shares					(90,000)		(90,000)
D1	Net income for 2019					475,492		475,492
D3	Other comprehensive income (loss) for 2019						(4,557)	(4,557)
D5	Total comprehensive income	-	-	-	-	475,492	(4,557)	470,935
E1	Capital increase by cash	100,000	1,564,928					1,664,928
Z1	Balance as of December 31, 2019	$700,000	$1,804,928	$123,630	$5,237	$1,429,704	$(9,794)	$4,053,705

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

Pegavision Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

(Amounts Expressed in Thousands of New Taiwan Dollars)

Code	Items	2019	2018	Code	Items	2019	2018
AAAA	Cash flows from operating activities:			BBBB	Cash flows from investing activities:		
A10000	Income before income tax	$560,855	$760,456	B00040	Disposal (acquisition) of financial assets at amortised cost	75,281	(75,281)
A20000	Adjustments:			B02700	Acquisition of property, plant and equipment	(1,266,497)	(1,740,994)
A20010	Profit or loss not effecting cash flows:			B02800	Proceeds from disposal of property, plant and equipment	16	290
A20100	Depreciation (including right-of-use assets)	685,206	513,418	B03700	Decrease (increase) in refundable deposits	3,867	(9,975)
A20200	Amortization	1,866	1,199	B04500	Acquisition of intangible assets	(4,096)	(2,873)
A20300	Expected credit losses (gain)	(1,694)	2,791	BBBB	Net cash provided by (used in) investing activities	(1,191,429)	(1,828,833)
A20400	Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	(69)	8				
A20900	Interest expense	22,157	9,922	CCCC	Cash flows from financing activities:		
A21200	Interest income	(3,839)	(6,588)	C00100	Increase in (repayment of) short-term borrowings	(30,587)	62,662
A22500	Loss (gain) on disposal of property, plant and equipment	1,530	(290)	C01600	Increase in long-term borrowings	1,100,000	800,000
A23100	Gain on disposal of investments	(97)	(140)	C01700	Repayments of long-term borrowings	(1,700,000)	(301,000)
A23700	Impairment loss on non-finacial assets	12,149	49,770	C03000	Increase (decrease) in guarantee deposits received	(1,297)	1,477
A30000	Changes in operating assets and liabilities:			C04020	Payments of lease liabilities	(136,418)	-
A31115	Financial assets at fair value through profit or loss	(315,954)	132,040	C04500	Cash dividends paid	(90,000)	-
A31150	Accounts receivable	(59,172)	(79,729)	C04600	Capital increase by cash	1,664,928	-
A31180	Other receivables	303	735	CCCC	Net cash provided by (used in) financing activities	806,626	563,139
A31200	Inventories	246,908	(466,529)				
A31230	Prepayments	(5,965)	6,710	DDDD	Effect of exchange rate changes	(4,909)	(747)
A31240	Other current assets	15,334	(7,783)				
A32125	Contract liabilities	(61,058)	(5,563)	EEEE	Increase (decrease) in cash and cash equivalents	382,808	(155,269)
A32130	Notes payable	2,551	(1,938)	E00100	Cash and cash equivalents at beginning of period	429,999	585,268
A32150	Accounts payable	(12,097)	16,167	E00200	Cash and cash equivalents at end of period	$812,807	$429,999
A32180	Other payables	(58,090)	216,828				
A32230	Other current liabilities	22,804	32,529				
A33000	Cash generated from operations	1,053,628	1,174,013				
A33100	Interest received	5,032	5,430				
A33300	Interest paid	(20,481)	(8,931)				
A33500	Income tax paid	(265,659)	(59,340)				
AAAA	Net cash provided by (used in) operating activities	772,520	1,111,172				

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

1. HISTORY AND ORGANIZATION

Pegavision Corporation (referred to "the Company") was established on August 12, 2009. Its main business activities include the manufacture of medical device, optical instrument, precision instrument and sales of the previous related products. The Company's stocks have been governmentally approved on October 7, 2014 to be listed and traded in Taiwan Over-The-Counter Securities Exchanges starting December 30, 2014, and traded in Taiwan Stock Exchange starting on October 7, 2019. The registered business premise and main operation address is at No.5 Shing Yeh Street, GuiShan District, Taoyuan City, Taiwan 33341.

Kinsus Interconnect Technology Corp. is the Company's parent, while Pegatron Corporation is the ultimate controller of the Group to which the Company belongs.

2. DATE AND PROCEDURE OF AUTHORIZATION FOR FINANCIAL STATEMENTS ISSUANCE

The consolidated financial statements of the Company and its subsidiaries ("the Group") were authorized to be issued in accordance with a resolution of the Board of Directors' meeting held on February 10th, 2020.

3. NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

The Group applied for the first time the International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2019. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

(A) IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Group followed the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarised as follows:

(a)Please refer to Note 4 for the accounting policies before or after January 1, 2019.

(b)For the definition of a lease, the Group elected not to reassess whether a contract was, or contains, a lease on January 1, 2019. The Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after January 1, 2019, the Group need to assess whether contacts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract converys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessed most of the contracts are, or contain, leases and has no significant impact arised.

(c)The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

I. Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Group measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019, and; The Group chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Group’s right-of-use asset and lease liability increased by NT$311,664 thousand and NT$311,664 thousand respectively.

In accordance with the transition provision in IFRS 16, the Group used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

ii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of January 1, 2019.

iii. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.

iv. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

II. Please refer to Note 4 and Note 6 for additional disclosure of lessee and lessor which required by IFRS 16.

III. As at January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarised as follows:

i. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 1.30%.

ii. For leases that were classified as operating leases applying IAS 17, lease payments are recognized as an expense on a straight-line basis over the lease term. After adopting IFRS 16, the Company expects to measure and recognize those leases, except for short-term or low-value asset lease exemptions, as lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Operating lease commitments under IAS 17 as of December 31, 2018 were NT$316,408 thousand and the present value discounted at the incremental borrowing rate on January 1, 2019 were NT$311,664 thousand. Thus, lease liabilities as of January 1, 2019 under IFRS 16 were recorded at NT$311,664 thousand.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	Definition of a Business - Amendments to IFRS 3	January 1, 2020
b	Definition of Material - Amendments to IAS 1 and 8	January 1, 2020
c	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	January 1, 2020

(A)Definition of a Business -Amendments to IFRS 3

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

(B)Definition of a Material -Amendments to IAS 1 and 8

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

(C)Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments include a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

The amendments include:

(a)highly probable requirement

When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

(b)prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

(c)IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80–125%) for hedging relationships directly affected by the interest rate benchmark reform.

(d)separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2020. The Group assesses all standards and interpretations have no material impact on the Group.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(3)Standards or interpretations issued, revised or amended, by International Accounting Standards Board ("IASB") which are not endorsed by FSC and also not yet adopted by the Group as at the end of the reporting period are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 "Insurance Contracts"	January 1, 2021
c	Classification of Liabilities as Current or Non-current - Amendments to IAS 1	January 1, 2022

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

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

(B)IFRS 17 Insurance Contracts

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

(a)Etimates of future cash flows;
(b)Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
(c)A risk adjustment for non-financial risk.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

(C)Classification of Liabilities as Current or Non-current - Amendments to IAS 1

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

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group assesses all standards and interpretations have no material impact on the Group.

4.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1)Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2019 and 2018 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by the FSC.

(2)Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in thousands of New Taiwan Dollars ("NT$") unless otherwise specified.

(3)Basis of consolidation

Preparation principle of consolidated financial statements

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

(A)Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
(B)Exposure, or rights, to variable returns from its involvement with the investee, and
(C)The ability to use its power over the investee to affect its returns

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(A)The contractual arrangement with the other vote holders of the investee
(B)Rights arising from other contractual arrangements
(C)The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Company loses control of a subsidiary, it:

(A)Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
(B)Derecognizes the carrying amount of any non-controlling interest;
(C)Recognizes the fair value of the consideration received;
(D)Recognizes the fair value of any investment retained;
(E)Recognizes any surplus or deficit in profit or loss; and
(F)Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

			Percentage of Ownership (%), As of December 31,		
Investor	Subsidiary	Main business	2019	2018	Note
The Company	Pegavision Holdings Corporation	Investing activities	100.00%	100.00%	None
Pegavision Holdings Corporation	Pegavision Contact Lenses (Shanghai) Corporation	Selling medical equipment	100.00%	100.00%	None
Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	Selling medical equipment	100.00%	Not applicable	Note1
The Company	Pegavision Japan Inc.	Selling medical equipment	100.00%	100.00%	None

Note 1: The board of directors of Pegavision Corporation has resolved at a meeting held on December 24, 2018 to set up an 100%-owned subsidiary, Gemvision Technology (Zhejiang) Limited, through Pegavision Contact Lenses (Shanghai) Corporation. The Group completed the registration on January 29, 2019.

(4)Foreign currency transactions

The Group's consolidated financial statements are presented in New Taiwan Dollar, which is the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates prevailing at the date of the transaction. At the reporting date, monetary items denominated in foreign currencies are retranslated at the prevailing functional currency closing rate of exchange. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value is determined; and non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

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

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

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

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

(5)Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan dollars at the closing rate of exchange prevailing at the balance sheet date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income under exchange differences on translation of foreign operations. On disposal of the foreign operation, cumulative amount of the exchange differences recognized in other comprehensive income under separate component of equity is reclassified from equity to profit or loss when recognizing the disposal gain/loss.

On the partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the NCIs in that foreign operation, instead of recognized in profit or loss. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

(6)Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(7)Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including fixed-term deposits that have maturities equal to or less than three months from the date of acquisition).

(8)Financial instruments

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

The Group determines the classification of its financial assets at initial recognition. In accordance with IFRS 9 and the Regulations, financial assets of the Group are classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost and notes, accounts and other receivables. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

(A)Financial assets: Recognition and Measurement

Purchase or sale of financial assets is recognized using trade date accounting. The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

(a)The Group’s business model for managing the financial assets and
(b)The contractual cash flow characteristics of the financial asset.

<u>Financial assets measured at amortized cost</u>

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

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

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

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

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

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

<u>Financial asset measured at fair value through other comprehensive income</u>

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

(a)The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
(b)The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

(a)A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

(b)When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

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

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

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

Besides, for certain equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Group made an irrevocable elction to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income are not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

<u>Financial asset measured at fair value through profit or loss</u>

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on a forementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

(B)Impairment of financial assets

The Group is recognized a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

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

(a)An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b)The time value of money; and
(c)Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follows:

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

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

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

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

(C)Derecognition of financial assets

A financial asset is derecognized when:

(a)The rights to receive cash flows from the asset have expired
(b)The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
(c)The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(D)Financial liabilities and equity

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

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

<u>Equity instruments</u>

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. A financial liability is classified as held for trading if:

(a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(b) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(a) It eliminates or significantly reduces a measurement or recognition inconsistency; or
(b) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

(E)Offsetting of financial instruments

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

(9)Fair value measurement

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

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

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

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

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

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

(10)Inventories

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

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

Raw materials - At actual purchase cost, using first in first out method
Finished goods and work in progress - Cost of direct materials and labor and a proportion of manufacturing overheads excluding borrowing costs.

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

(11)Property, plant and equipment

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

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

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

Buildings	16.5 years
Machinery and equipment	6 years
Transportation equipment	2 ~ 6 years
Office equipment	3 ~ 6 years
Other equipment	1~ 11 years

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

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

(12)Leases

<u>The accounting policy from January 1, 2019 as follow:</u>

For contracts entered on or after January 1, 2019, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, has both of the following:

(A)The right to obtain substantially all of the economic benefits from use of the identified asset; and
(B)The right to direct the use of the identified asset.

The Group elected not to reassess whether a contract is, or contains, a lease on January 1, 2019. The Group is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

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

Group as a lessee

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

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

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

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

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

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

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

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

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

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

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

Group as a lessor

At inception of a contract, the Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Group recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

The Group recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy before January 1, 2019 as follow:

Group as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(13)Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A summary of the policies applied to the Group’s intangible assets is as follows:

	Cost of Computer Software
Useful economic life	2 ~ 5 years
Amortization method	Straight-line method during the contract term
Internally generated or acquired externally	Acquired externally

(14)Impairment of non-financial assets

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

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

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(15)Revenue recognition

The Group's revenue arising from contracts with customers mainly includes sale of goods. The accounting policies for the Group's types of revenue are explained as follow:

<u>Sale of goods</u>

The Group manufactures and sells of its products. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is contact lenses and revenue is recognized based on the consideration stated in the contract. The Group recognized an allowance for sale return and discount shall be presented under the caption of refund liabilities within other current liabilities when partial or all considerations received might be returned or a chargeback is expected to occur.

The credit period of the Group's sale of goods is from T/T to 90 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

(16)Borrowing costs

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

(17)Post-employment benefits

All regular employees of the Company and its domestic subsidiaries are entitled to pension plans that are managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore, fund assets are not included in the Group's consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries and branches make contribution to the plan based on the requirements of local regulations and the contribution is expensed as incurred.

(18)Income tax

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

<u>Current income tax</u>

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

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

Deferred income tax

Deferred income tax is a temporary difference between the tax bases of assets and liabilities and their carrying amounts in balance sheet at the reporting date.

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

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

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

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

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

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized according.

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

5.SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions:

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

(1)Revenue recognition - sale returns and allowances

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Please refer to Note 6 for more details.

(2)Income tax

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

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

(3)Accounts receivable - estimation of impairment loss

The Group estimates the impairment loss of accounts receivable at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(4)Inventory

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

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

6.CONTENTS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

	As of December 31,	
	2019	2018
Cash and petty cash	$2,426	$5,191
Checkings and savings	446,916	320,492
Time deposit	363,465	104,316
Total	$812,807	$429,999

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

	As of December 31,	
	2019	2018
Mandatorily measured at fair value through profit or loss:		
Money market fund	$316,051	$-
Valuation adjustment	69	-
Total	$316,120	$-
Current	$316,120	$-
Non-current	-	-
Total	$316,120	$-

No financial asset measured at fair value through profit or loss was pledged as collateral.

(3)Financial assets measured at amortized cost

	As of December 31,	
	2019	2018
Time deposits	$-	$75,281
Less: loss allowance	-	-
Total	$-	$75,281
Current	$-	$75,281
Non-current	$-	$-

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

The Group deals with financial institution with good credit condition, there is no significant credit risk.

No financial assets measured at amortized cost were pledged as collateral.

(4)Accounts receivable, net

A. Accounts receivable, net

	As of December 31,	
	2019	2018
Accounts receivable, gross	$255,655	$196,488
Less: loss allowance	(2,349)	(4,064)
Subtotal	253,306	192,424
Accounts receivable - related parties, gross	5	-
Less: loss allowance	-	-
Subtotal	5	-
Total accounts receivable, net	$253,311	$192,424

B. Accounts receivable were not pledged.

C. Accounts receivable are generally on T/T to 90 days terms. The total carrying amount is $255,660 thousand and NT$196,488 thousand as of December 31, 2019 and 2018, respectively. Please refer to Note 6 (16) for more details on loss allowance of accounts receivable for the periods ended December 31, 2019 and 2018. Please refer to Note 12 for more details on credit risk management.

(5)Inventory

A. Details of inventory:

	As of December 31,	
	2019	2018
Merchandises	$1,725	$-
Raw materials	26,045	51,172
Supplies	1,515	3,872
Work in process	295,875	344,032
Finished goods	224,832	397,824
Total	$549,992	$796,900

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

B. For the years ended December 31, 2019 and 2018, the Group recognized NT$1,862,103 thousand and NT$1,527,316 thousand under the caption of costs of sale, respectively. The following items were also included in cost.

Item	For the year ended December 31, 2019	For the year ended December 31, 2018
Loss (Gain) from inventory market decline	$37,516	$8,143
Loss from inventory write-off obselencense	13,355	6,899
Loss (Gain) from physical taking	-	8
Total	$50,871	$15,050

C.The inventories were not pledged.

(6)Property, plant and equipment

	As of December 31, 2019(Note)	As of December 31, 2018
Owner occupied property, plant and equipment	$3,029,925	

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

A.Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land	Buildings	Machinery and equipment	Transportation equipment	Computer equipment	Other equipment	Construction in progress and equipment awaiting inspection (including prepayment for equipment)	Total
Cost:								
As of 1/1/2019	$-	$-	$2,671,754	$1,576	$64,956	$662,532	$586,543	$3,987,361
Addition	-	-	-	-	100	7,517	1,125,024	1,132,641
Disposals	-	-	(10,695)	-	(3,550)	(12,844)	-	(27,089)
Transfer	1,317,564	69,345	114,479	-	16,149	76,784	(1,598,417)	(4,096)
Effect of EX rate	-	-	-	-	(5)	(44)	-	(49)
As of 12/31/2019	$1,317,564	$69,345	$2,775,538	$1,576	$77,650	$733,945	$113,150	$5,088,768

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Depreciation and impairment:								
As of 1/1/2019	$-	$-	$1,092,688	$1,006	$47,462	$335,591	$-	$1,476,747
Depreciation	-	3,872	436,454	160	12,732	93,080	-	546,298
Impairment loss	-	-	11,436	-	-	713	-	12,149
Disposal	-	-	(10,695)	-	(3,550)	(11,298)	-	(25,543)
Transfer	-	-	-	-	-	-	-	-
Effect of EX rate	-	-	-	-	(7)	(87)	-	(94)
As of 12/31/2019	$-	$3,872	$1,529,883	$1,166	$56,637	$417,999	$-	$2,009,557
Net carrying amount:								
As of 12/31/2019	$1,317,564	$65,473	$1,245,655	$410	$21,013	$315,946	$113,150	$3,079,211

B.Property, plant and equipment (prior to the application of IFRS 16)

	Machinery and equipment	Transportation equipment	Computer equipment	Other equipment	Construction in progress and equipment awaiting inspection (including prepayment for equipment)	Total
Cost:						
As of 1/1/2018	$1,692,463	$1,121	$54,538	$528,072	$310,699	$2,586,893
Addition	-	-	-	2,490	1,454,217	1,456,707
Disposals	(40,025)	(525)	(86)	(12,740)	-	(53,376)
Transfer	1,019,316	980	10,491	144,713	(1,178,373)	(2,873)
Effect of EX rate	-	-	13	(3)	-	10
As of 12/31/2018	$2,671,754	$1,576	$64,956	$662,532	$586,543	$3,987,361
Depreciation and impairment:						
As of 1/1/2018	$693,642	$1,121	$37,049	$235,121	$-	$966,933
Depreciation	414,694	410	10,492	87,822	-	513,418
Impairment loss	24,377	-	-	25,393	-	49,770
Disposal	(40,025)	(525)	(86)	(12,740)	-	(53,376)
Transfer	-	-	-	-	-	-
Effect of EX rate	-	-	7	(5)	-	2
As of 12/31/2018	$1,092,688	$1,006	$47,462	$335,591	$-	$1,476,747

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Net carrying amount:						
As of 12/31/2018	$1,579,066	$570	$17,494	$326,941	$586,543	$2,510,614

C.Details of property, plant & equipment and prepayment for equipment is as follows:

	As of December 31,	
	2019	2018
Property, plant and equipment	$3,029,925	$2,059,794
Prepayment for equipment	49,286	450,820
Total	$3,079,211	$2,510,614

D.For the years ended December 31, 2019 and 2018, NT$12,149 thousand and NT$49,770 thousand impairment loss represented the write down of certain property, plant and equipment to the recoverable amount. This has been recognized in the statement of comprehensive income. The recoverable value is measured at usage values by the individual units.

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

(7)Intangible assets

	Computer software
Cost:	
As of January 1, 2019	$13,991
Additions – acquired separately	-
Transfer	4,096
Derecognized upon retirement	-
As of December 31, 2019	$18,087
As of January 1, 2018	$11,118
Additions – acquired separately	-
Transfer	2,873
Derecognized upon retirement	-
As of December 31, 2018	$13,991
Amortization and Impairment:	
As of January 1, 2019	$11,685
Amortization	1,866

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Derecognized upon retirement	-
As of December 31, 2019	$13,551
As of January 1, 2018	$10,486
Amortization	1,199
Derecognized upon retirement	-
As of December 31, 2018	$11,685
Carrying amount, net:	
As of December 31, 2019	$4,536
As of December 31, 2018	$2,306

Amounts of amortization recognized for intangible assets are as follows:

	For the year ended December 31,	
	2019	2018
Selling expense	$45	$203
Administrative expense	1,674	871
Research and development expense	147	125
Total	$1,866	$1,199

(8)Other non-current assets

	As of December 31,	
	2019	2018
Refundable deposits	$67,378	$71,245
Prepayment for equipment	49,286	450,820
Total	$116,664	$522,065

(9)Short-term borrowings

	As of December 31,	
	2019	2018
Unsecured bank loans	$128,914	$159,501
Interest Rate (%)	2.48%~2.83%	1.1%~3.58%

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

The Group's unused short-term lines of credits amounts to NT$770,886 thousand and NT$598,112 thousand, as at December 31, 2019 and 2018, respectively.

(10)Other payable

	As of December 31,	
	2019	2018
Accrued expenses	$586,681	$644,771
Accrued interest payable	102	1,273
Payable to equipment suppliers	65,608	203,560
Total	$652,391	$849,604

(11)Other current liabilities

	As of December 31,	
	2019	2018
Other current liabilities	$18,825	$28,054
Current portion of long-term borrowings	-	112,500
Refund liability	67,472	35,439
Total	$86,297	$175,993

(12)Long-term borrowings

A.Details of long-term borrowings

			As of December 31,		
Debtor	Type of Loan	Maturity	2019	2018	Repayment
The Shanghai Commercial & Savings Bank - ZhongLi Branch	Credit loan	2018.03.31-2021.03.31	$-	$200,000	Notes 1
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.05.10-2023.05.10	-	100,000	Notes 2
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.06.05-2023.06.05	-	40,000	Notes 2

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Mega International Commercial Bank - LanYa Branch	Credit loan	2018.06.25-2023.06.25	-	100,000	Notes 2
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.06.29-2023.06.29	-	60,000	Notes 2
Chang Hwa Commercial Bank - Beitou Branch	Credit loan	2018.10.09-2023.10.09	-	100,000	Notes 2
Total			-	600,000	
Less: current portion			-	(112,500)	
Non-current portion			$-	$487,500	

Note 1: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 8 terms. Reimbursement in advance in 2019.

Note 2: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 16 terms. Reimbursement in advance in 2019.

B.Please refer to Note 8 for more details regarding assets pleded for secured bank loans.

C.As of December 31, 2019 and 2018, the interest rate intervals for long-term borrowings were 1.20%~1.35% and 1.30%~1.35%, respectively.

(13)Post-employment benefits

Defined contribution plan

The Company adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Group have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Pension benefits for employees of overseas subsidiaries and branches are provided in accordance with the local regulations.

Expenses under the defined contribution plan for the years ended December 31, 2019 and 2018 were NT$30,757 thousand and NT$30,579 thousand, respectively.

Pension for the years ended December 31, 2019 and 2018 were NT$52 thousand and NT$51 thousand, respectively.

(14)Equity

A.Common stock

As of December 31, 2019 and 2018, the Company's authorized capital were NT$800,000 thousand, and paid-in capital were NT$700,000 thousand and NT$600,000 thousand, each share at par value of NT$10, divided into 70,000 thousand and 60,000 thousand. Each share has one voting right and a right to receive dividends.

The Company passed the proposal of cash capital increase, 10,000 thousands shares, by board of directors on July 29, 2019. Except for 15% of new shares, 1,500 thousands shares, for employees to subscribe according to Article 267 of the Company Law, the remaining 8,500 thousands shares were given up by shareholders through the shareholders' meeting on June 16, 2015. The Company consigned the underwriter to underwrite before listing. The proposal of cash capital increase were effectively registered by Taiwan Stock Exchange on August 21, 2019. The base date of capital increase was October 4, 2019.

B.Capital surplus

	As of December 31,	
	2019	2018
Additional paid-in capital	$1,804,928	$240,000

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

C.Appropriation of earnings and dividend policies

a.Distribution of earnings

The Company's shareholder's meeting held on June 14, 2019 passed the resolution of amending the Articles of Incorporation, according to the Company's Articles of Incorporation, current year's earnings, if any, shall be distributed in the following order:

I. Payment of all taxes and dues;
II.Offset prior years' operation losses;
III.Set aside 10% of the remaining amount as legal reserve. There is no requirement to further make such reserve when legal reserve reaches the capital amount.
IV.Set aside or reverse special reserve in accordance with law and regulations; and
V.The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

If the above-mentioned dividends are distributed to shareholders in the form of cash, the Board of Directors have been authorized to approve by a resolution adopted by a majority vote at a meeting of Bord of Directors attended by two-thirds of the total number of directors, and report to the shareholder's meeting.

b.Dividend policies

The Company is in an industry with versatile environment. For long-term finance planning requirements and to meet the shareholders' demand for cash, the Group's dividend policy aims for steadiness and balancing. Dividends to be distributed in cash for each year shall not be less than 10% of the total dividends paid.

c.Legal reserve

According to the Company Act, legal reserve shall be set aside until such amount equal total authorized capital. Legal reserve can be used to offset deficits. If the Company does not incur any loss, the portion of legal reserve exceeding 25% of the paid-in capital may be distributed to shareholders by issuing new shares or by cash in proportion to the number of shares held by each shareholder.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

d. Special reserve

Pursuant to existing regulations, the Company is required to set additional special reserve equivalent to the net debit balance of the other components of shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Following the adoption of T-IFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the T-IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the T-IFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company did not incur any special reserve upon the first-time adoption of T-IFRS.

e. The appropriations of earnings for the Years 2019 and 2018 were approved through the Board of Directors' meetings and shareholders' meetings held on February 10, 2020 and June 14, 2019, respectively. The details of the distributions are as follows.

	Appropriation of earnings		Dividend per share (in NT$)	
	2019	2018	2019	2018
Legal reserve	$47,549	$54,115		
Special reserve	4,557	746		
Cash dividend	175,000	90,000	$2.5	$1.5
Total	$227,106	$144,861		

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Please refer to Note 6(18) for details on employees' compensation and remuneration to directors and supervisors.

(15)Operating revenue

	For the year ended December 31,	
	2019	2018
Revenue from customer contracts		
Sales of goods	$3,355,133	$3,132,671

Analysis of revenue from contracts with customers during the years ended December 31,2019 and 2018 are as follows:

A.Disaggregation of revenue

	For the year ended December 31,	
	2019	2018
	Single department	Single department
Sales of goods	$3,355,133	$3,132,671

The timing for revenue recognition:		
At a point in time	$3,355,133	$3,132,671

B.Contract balances

a.Contract liabilities – current

As of	108.12.31	107.12.31	107.01.01
Sales of goods	$55,917	$121,084	$133,345
Customer loyalty programmes	14,848	10,739	4,041
Total	$70,765	$131,823	$137,386

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

The significant changes in the Group's balances of contract liabilities for the year ended 31 December 2019 are as follows:

	Sales of goods	Customer loyalty programs
The opening balance transferred to revenue	$(121,084)	$(10,739)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	55,917	14,848

The significant changes in the Group's balances of contract liabilities for the year ended 31 December 2018 are as follows:

	Sales of goods	Customer loyalty programs
The opening balance transferred to revenue	$(132,737)	$(4,041)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	120,476	10,739

(16)Expected credit gains (losses)

	For the year ended December 31,	
	2019	2018
Operating expenses – Expected credit gains (losses)		
Accounts receivable	$1,694	$(2,791)

A.The Group condsiders the grouping of accounts receivable by counter-parties' credit rating, by geographical region and by industry sector and its loss allowance is measured at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance are as follow:

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

December 31, 2019

		Past due				
	Not past due	<=60 days	61-90 days	91-240 days	>=241 days	Total
Gross carrying amount	$225,699	$29,961	$-	$-	$-	$255,660
Loss rate	0.91%	1.00%	0%	0%	0%	
Lifetime expected credit losses	(2,049)	(300)	-	-	-	(2,349)
Carrying amount of accounts receivable	$223,650	$29,661	$-	$-	$-	$253,311

December 31, 2018

		Past due				
	Not past due	<=60 days	61-90 days	91-240 days	>=241 days	Total
Gross carrying amount	$196,488	$-	$-	$-	$-	$196,488
Loss rate	2.07%	0%	0%	0%	0%	
Lifetime expected credit losses	(4,064)	-	-	-	-	(4,064)
Carrying amount of accounts receivable	$192,424	$-	$-	$-	$-	$192,424

B.The movement in the provision for impairment of accounts receivable for the year ended December 31,2019 and 2018 are as follows:

	Accounts receivable
As of January 1,2019	$4,064
Addition (reversal)	(1,694)
Effect of exchange rate changes	(21)
As of December 31,2019	$2,349
As of January 1,2018 (in accordance with IAS 39)	$1,273
Transition adjustment to retained earnings as at 1 Jan. 2018	-
As of January 1,2018 (in accordance with IFRS 9)	1,273
Addition (reversal)	2,791
As of December 31,2018	$4,064

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(17)Leases

A.Group as a lessee (applicable to the disclosure requirement under in IFRS 16)

The Group leases various properties, including real estate such as land and buildings, machinery and equipment, transportation equipment. The lease terms range from 1 to 7 years. The Group may not allow to lend, sublease, sell without obtaining the consent from the lessors.

The effect of leases on the Group's consolidated financial position, financial performance and cash flows are as follow:

a .Amounts recognized in the consolidated balance sheet

I.Right-of-use assets

	Land	Buildings	Machinery	Transportation	Total
Cost:					
As of 1/1/2019	$-	$292,541	$17,793	$1,330	$311,664
Addition	1,743	49,418	-	1,160	52,321
Disposals	-	(65,642)	-	-	(65,642)
Transfer	-	-	-	-	-
Effect of EX rate	-	98	-	-	98
As of 12/31/2019	$1,743	$276,415	$17,793	$2,490	$298,441
Depreciation and impairment:					
As of 1/1/2019	$-	$-	$-	$-	$-
Depreciation	581	130,624	6,888	815	138,908
Impairment loss	-	-	-	-	-
Disposal	-	(7,082)	-	-	(7,082)
Transfer	-	-	-	-	-
Effect of EX rate	-	(93)	-	-	(93)
As of 12/31/2019	$581	$123,449	$6,888	$815	$131,733
Net carrying amount:					
As of 12/31/2019	$1,162	$152,966	$10,905	$1,675	$166,708

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

II.Lease liabilities

	As of December 31,	
	2019	2018(Note)
Lease liabilities	$172,080	
Current	$113,937	
Non-current	$58,143	

Please refer to Note 6 (19) (c) for the interest on lease liabilities recognized during the year ended December 31, 2019 and refer to Note 12(5) Liquidity Risk Management for the maturity analysis for lease liabilities as at December 31, 2019.

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

b.Income and costs relating to leasing activities

	For th year ended December 31,	
	2019	2018 (Note)
The expense relating to short-term leases	$(27,356)	
The expense relating to leases of low-value assets	(1,212)	
Income from subleasing right-of-use assets	834	

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

The portfolio of short-term leases of the Group to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed above and the amount of its lease commitments is NT$0.

c.Cash outflow relating to leasing activities

During the period ended December 31, 2019, the Group’s total cash outflow for leases amounting to NT$164,986 thousand.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

B.Operating lease commitments - Group as lessee (applicable to the disclosure requirement in IAS 17)

The Group has entered into commercial leases on plants. These leases have an average life of one to five years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2019 and December 31, 2018 are as follows:

	As of December 31,	
	2019 (Note)	2018
Less than one year		$152,691
More than one year but less than five years		163,717
Total		$316,408

Operating lease expenses recognized are as follows:

	For the year ended December 31,	
	2019 (Note)	2018
Minimum lease payments		$151,274

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(18)Summary statement of employee benefits, depreciation and amortization by function is as follows:

Function / Nature	2019			2018		
	Operating Costs	Operating expenses	Total	Operating Costs	Operating expenses	Total
Employee benefit expense						
Salaries	$487,330	$362,459	$849,789	$620,140	$357,288	$977,428
Labor and health insurance	48,773	28,787	77,560	49,353	22,336	71,689
Pension	15,734	15,075	30,809	18,323	12,307	30,630
Directors' remuneration	-	9,455	9,455	-	9,534	9,534
Other employee benefit expense	22,993	15,180	38,173	29,223	20,522	49,745
Depreciation	601,278	83,928	685,206	484,253	29,165	513,418
Amortization	-	1,866	1,866	-	1,199	1,199

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

According to the Article of Incorporation, not lower than 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Group's accumulated losses shall have been covered.

The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2019 amounted to NT$71,933 thousand and NT$6,255 thousand, respectively. The employees' compensation and remuneration to directors for the year ended December 31, 2018 amounted to NT$99,078 thousand and NT$8,615 thousand, respectively, recognized as employee benefits.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$71,933 thousand and NT$6,255 thousand, respectively, in a meeting held on February 10, 2020. No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2019.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$99,078 thousand and NT$8,612 thousand, respectively, in a meeting held on February 18, 2019. The NT$3 thousand differences between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2018, were recognized as gain or loss in the next year.

(19)Non-operating incomes and expenses

A.Other incomes

	For the year ended December 31,	
Interest income	2019	2018
Deposit interest	$3,240	$5,133
Financial assets measured at amortized cost	599	1,455

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Subtotal	3,839	6,588
Rental income	834	1,309
Other income - others	8,066	2,407
Total	$12,739	$10,304

B.Other gains and losses

	For the year ended December 31,	
	2019	2018
Gains (losses) on disposal of investments	$97	$140
Gains (losses) on financial assets at fair value through profit or loss	69	(8)
Gains (losses) on lease modification	273	-
Gain (loss) from disposal of property, plant and equipment	(1,530)	290
Impairment loss on non-financial assets	(12,149)	(49,770)
Foreign exchange gain (loss), net	(8,495)	18,432
Other losses	(106)	(77)
Total	$(21,841)	$(30,993)

A. Finance costs

	For the year ended December 31,	
	2019	2018
Interests on borrowings from bank	$19,310	$9,922
Interest on lease liabilities	2,847	(Note)
Total	$22,157	$9,922

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(20)Components of other comprehensive income (loss)

For the year ended December 31, 2019

	Arising during the period	Reclassification during the period	Subtotal	Income tax benefit (expense)	OCI, Net of tax
May be reclassified to profit or loss in subsequent period:					
Exchange differences arising on translation of foreign operations	$(4,557)	$-	$(4,557)	$-	$(4,557)

For the year ended December 31, 2018

	Arising during the period	Reclassification during the period	Subtotal	Income tax benefit (expense)	OCI, Net of tax
May be reclassified to profit or loss in subsequent period:					
Exchange differences arising on translation of foreign operations	$(746)	$-	$(746)	$-	$(746)

(21)Income tax

Based on the amendments to the Income Tax Act announced on 7 February, 2018, the Company's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

A.The major components of income tax expense (income) are as follows:

Income tax expense (benefit) recognized in profit or loss

	For the year ended December 31,	
	2019	2018
Current income tax expense (income):		
Current income tax expense	$101,013	$215,292
Adjustments in respect of current income tax of prior periods	(17,736)	2,372
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	2,086	1,636
Total income tax expense (income)	$85,363	$219,300

B.A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the year ended December 31,	
	2019	2018
Accounting profit before tax from continuing operations	$560,855	$760,456
Tax payable at the enacted tax rates	$117,250	$155,634
Tax effect of income tax-exempted	(33)	(463)
Tax effect of expenses not deductible for tax purposes	1,393	85
Tax effect of deferred tax assets/liabilities	5,228	40,972
Surtax on undistributed earnings	19,815	27,169
Adjustments in respect of current income tax of prior periods	(17,736)	2,372
Other adjustments according to the Tax Law	(40,554)	(6,469)
Total income tax expense (income) recognized in profit or loss	$85,363	$219,300

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

C.Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2019

	Beginning balance as of Jan. 1, 2019	Deferred tax income (expense) recognized in profit or loss	Income tax relating to components of other comprehensive income	Exchange adjustment	Ending balance as of Dec. 31, 2019
Temporary differences					
Unrealized loss on inventory valuation	$2,491	$(500)	$-	$-	$1,991
Unrealized exchange loss (gain)	(769)	2,727	-	-	1,958
Other	(3,557)	(4,313)	-	(13)	(7,883)
Deferred tax income/ (expense)		$(2,086)	$-	$(13)	
Net deferred tax assets/(liabilities)	$(1,835)				$(3,934)
Reflected in balance sheet as follows:					
Deferred tax assets	$2,817				$4,689
Deferred tax liabilities	$4,652				$8,623

For the year ended December 31, 2018

	Beginning balance as of Jan. 1, 2018	Deferred tax income (expense) recognized in profit or loss	Income tax relating to components of other comprehensive income	Exchange adjustment	Ending balance as of Dec. 31, 2018
Temporary differences					
Unrealized loss on inventory valuation	$156	$2,335	$-	$-	$2,491
Unrealized exchange loss (gain)	(156)	(613)	-	-	(769)
Other	(207)	(3,358)	-	8	(3,557)
Deferred tax income/ (expense)		$(1,636)	$-	$8	
Net deferred tax assets/(liabilities)	$(207)				$(1,835)

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Reflected in balance sheet as follows:		
Deferred tax assets	$271	$2,817
Deferred tax liabilities	$478	$4,652

D.Unrecognized deferred tax assets

As of December 31, 2019 and 2018, deferred tax assets that have not been recognized as they may not be used to offset future taxable income amounted to NT$71,054 thousand and NT$65,719 thousand, respectively.

E.The assessment of income tax return

As of December 31, 2019, the assessment of income tax returns of the Company have been approved up to the year of 2016.

(22)Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common stocks outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent entity by the weighted average number of common stocks outstanding during the year plus the weighted average number of common stocks that would be issued on conversion of all the dilutive potential common stocks into common stocks.

A.Basic earnings per share

	For the year ended December 31,	
	2019	2018
Net income available to common shareholders of the parent	$475,492	$541,156
Weighted average number of common stocks outstanding (in thousand shares)	62,438	60,000
Basic earnings per share (in NT$)	$7.62	$9.02

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

B.Diluted earnings per share

	For the year ended December 31,	
	2019	2018
Net income available to common shareholders of the parent	$475,492	$541,156
Net income available to common shareholders of the parent after dilution	$475,492	$541,156
Weighted average number of common stocks outstanding (in thousand shares)	62,438	60,000
Effect of dilution:		
Employee bonus (compensation) - stock (in thousand shares)	470	599
Weighted average number of common shares outstanding after dilution (in thousand shares)	62,908	60,599
Diluted earnings per share (in NT$)	$7.56	$8.93

No other transactions that would significantly change the outstanding common stocks or potential common shares incurred during the period subsequent to reporting date and up to the approval date of financial statements.

7.RELATED PARTY TRANSACTIONS

(1)Deal with related parties as of the end of the reporting period

Related parties and Relationship

Related parties	Relation
Pegatron Corporation	Ultimate parent company
Kinsus Interconnect Technology Corp.	Parent company
Pegatron Japan Inc.	Other related party
GNDC (Shanghai) Co., Ltd.	Other related party
Pegatron Czech S.R.O.	Other related party

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(2)Significant transactions with related parties

A.Operating revenue

	For the year ended December 31,	
	2019	2018
Parent company	$73	$-

Selling prices is set by the fixed price for sale to other customers and taking into account the cost of its after-sales services plus reasonable profit. Collecion terms for general customers were 90 days after monthly closing while 90 days after monthly closing for parent company.

B.Lease-related parties

a.Right-of-use assets

		As of December 31,	
Related parties	Nture	2019	2018 (Note)
Pegatron Corporation	Buildings	$59,555	

b.Lease liabilities

		As of December 31,	
Related parties	Nature	2019	2018 (Note)
Pegatron Corporation	Buildings	$65,406	

c.Lease payment (Rental expense)

		For the year ended December 31,	
Related parties	Nature	2019	2018
Pegatron Corporation	Buildings	$8,441	$104,094
Pegatron Corporation	Other equipments	$983	$1,029
Other related parties	offices	(Note)	$1,296

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

d.Interest expenses

	For the year ended December 31,	
Related parties	2019	2018 (Note)
Pegatron Corporation	$1,401	
Other related parties	61	
Total	$1,462	

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C.Operating expense

		For the year ended December 31,	
Related parties	Nature	2019	2018
Pegatron Corporation	Provide services	$399	$344
Pegatron Corporation	Pay utilities	$69,503	$88,464
Other related parties	Provide services and pay utilities and postage	$130	$246
Other related parties	Provide services and pay utilities and postage	$41	$21
Other related parties	Provide services	$180	$-

D.Refundable deposits

	As of December 31,	
	2019	2018
Pegatron Corporation	$10,000	$10,000

E.Accounts receivable - related parties

	As of December 31,	
	2019	2018
Kinsus Interconnect Technology Corp.	$5	$-
Less: loss allowance	-	-
Net	$5	$-

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

F.Other payables

	As of December 31,	
	2019	2018
Pegatron Corporation	$16,660	$16,513
Other related parties	61	18
Total	$16,721	$16,531

G.Salaries and rewards to key management of the Group

	For the year ended December 31,	
	2019	2018
Short-term employee benefits and post-employment benefits	$17,690	$11,364

8.PLEDGED ASSETS

The following table lists assets of the Group pledged as collateral:

	Carrying Amount As of December 31,		
Item	2019	2018	Secured liabilities
Property, plant and equipment - Land (carrying amount)	$1,317,565	$-	Secured borrowings
Property, plant and equipment - Buildings (carrying amount)	65,473	-	Secured borrowings
Refundable deposits	2,000	2,000	Security deposit to custom authority
Total	$1,385,038	$2,000	

9.SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2019, the Group's outstanding contracts relating to significant construction in progress and purchased property, plant and equipment were as follows:

Nature of Contract	Contract Amount	Amount Paid	Amount unpaid
Buildings	$1,379,048	$-	$1,379,048

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

10.SIGNIFICANT DISASTER LOSS

None

11.SIGNIFICANT SUBSEQUENT EVENT

None

12.OTHERS

(1)Categories of financial instruments

Financial assets

	As of December 31,	
	2019	2018
Financial assets at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	$316,120	$-
Financial assets measured at amortized cost	1,068,456	701,538
Total	$1,384,576	$701,538

Financial liabilities

	As of December 31,	
	2019	2018
Financial liabilities at amortized cost:		
Short-term borrowings	$128,914	$159,501
Payables	755,740	962,499
Long-term borrowings(including current portion with maturity less than 1 year)	-	600,000
Lease liabilities	172,080	(Note)
Total	$1,056,734	$1,722,000

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(2)Financial risk management objectives and policies

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

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

(3)Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk (e.g. equity instruments).

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

<u>Foreign currency risk</u>

The Group's exposure to foreign currency risk relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign operations.

The Group has certain foreign currency receivables denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. Therefore, hedge accounting is not adopted.

The foreign currency sensitivity analysis of possible change in foreign exchange rates on the Group’s profit/loss and equity is performed on significant monetary items denominated in foreign currencies as of the reporting period-end. The Group’s foreign currency risk is mainly related to volatility in the exchange rates of US dollars and CNY dollars. The information of the sensitivity analyses is as follows:

When NTD appreciates/depreciates against USD by 1%, net income (loss) for the the year ended December 31, 2019 and 2018 would decrease/increase by NT$979 thousand and NT$3,052 thousand, respectively.

When NTD appreciates/depreciates against CNY by 1%, net income (loss) for the the year ended December 31, 2019 and 2018 would decrease/increase by NT$2,382 thousand and NT$2,981 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group’s exposure to interest rate risk relates primarily to the Group’s investments with variable interest rates and loans with fixed and variable interest rates, which are all categorized as loans and receivables.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period and presumed to be held for one accounting year, including investments and bank borrowing with variable interest rates. If interest rate increases/decreases by 1%, the net income (loss) for the the year ended December 31, 2019 and 2018 would increase /decrease by NT$4,442 thousand and decrease/increase by NT$2,795 thousand, respectively.

Equity price risk

As of December 31, 2019 and 2018, the Group does not hold equity securities at fair value; therefore the Group is not subject to equity price risk.

(4)Credit risk management

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

Credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to credit risk management. Credit risk of all customers are assessed based on a comprehensive review of the customers' financial status, credit ratings from credit institutions, past transactions, current economic conditions and the Group's internal credit ratings. The Group also employs some credit enhancement instruments (e.g. prepayment or insurance) to reduce certain customers' credit risk.

As of December 31, 2019 and 2018, receivables from the top ten customers were accounted for 51.59% and 68.99% of the Group's total accounts receivable, respectively. The concentration of credit risk is relatively insignificant for the remaining receivables.

Credit risk from balances with banks, fixed-income securities and other financial instruments is managed by the Group's finance division in accordance with the Group's policy. The counterparties that the Group transacts with are determined by internal control procedures. They are banks with fine credit ratings and financial institutions, corporate and government agencies with investment-grade credit ratings. Thus, there is no significant default risk. Conclusively, there is no significant credit risk for these counter parties.

The Group adopted IFRS 9 to assess the expected credit losses. Except for contract assets and trade receivables, the remaining debt instrument investments which are not measured at fair value through profit or loss, low credit risk for these investments is a prerequisite upon acquisition and by using their credit risk as a basis for the distinction of categories.

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

(5)Liquidity risk management

The Group maintains financial flexibility through the use of cash and cash equivalents, highly-liquid marketable securities, bank loans, etc. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated yield curve as of the end of the reporting period.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
As of December 31, 2019						
Borrowings	$129,508	$-	$-	$-	$-	$129,508
Payables	755,740	-	-	-	-	755,740
Lease liabilities	115,220	34,160	18,082	5,205	1,425	174,092
As of December 31, 2018						
Borrowings	$279,929	$206,407	$128,544	$102,143	$62,937	$779,960
Payables	962,499	-	-	-	-	962,499

(6)Movement schedule of liabilities arising from financing activities

Movement schedule of liabilities for the year ended December 31, 2019:

	Short-term borrowings	Long-term borrowings	Refundable deposits	Lease liabilities	Total liabilities from financing activities
As of January 1, 2019	$159,501	$600,000	$2,059	$311,664	$1,073,224
Cash flows	(30,587)	(600,000)	(1,297)	(136,418)	(768,302)
Non-cash changes					
Lease range changes	-	-	-	(6,239)	(6,239)
Interests on lease liabilities	-	-	-	2,847	2,847
Currency rate change	-	-	-	226	226
As of December 31, 2019	$128,914	$-	$762	$172,080	$301,756

Movement schedule of liabilities for the year ended December 31, 2018:

	Short-term borrowings	Long-term borrowings	Refundable deposits	Lease liabilities (Note)	Total liabilities from financing activities
As of January 1, 2018	$96,839	$101,000	$582		$198,421
Cash flows	62,662	499,000	1,477		563,139
Currency rate change	-	-	-		-
As of December 31, 2018	$159,501	$600,000	$2,059		$761,560

Note: The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(7)Fair values of financial instruments

A.The evaluation methods and assumptions applied in determining the fair value

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between willing market participants (not under coercion or liquidation). The following methods and assumptions are used by the Group in estimating the fair values of financial assets and liabilities:

a.The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturity.

b.For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds).

c.Fair value of equity instruments without market quotations, bank borrowing and other non-current liabilities are determined based on the counterparty prices or valuation method (including private placement of listed equity securities, unquoted public Group and private Group equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

B.Fair value of financial instruments measured at amortized cost

The carrying amount of the Group’s financial assets and liabilities measure at amortized cost approximates their fair value.

C.Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Group.

(8)Fair value measurement hierarchy

A.Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

B.Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Money market fund	$316,120	$-	$-	$316,120
Financial liabilities:				
None				

As of December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets:				
None				
Financial liabilities:				
None				

(9)Significant financial assets and liabilities denominated in foreign currencies

Information regarding the significant financial assets and liabilities denominated in foreign currencies was listed below. (In Thousands)

	As of December 31,					
	2019			2018		
	Foreign Currencies	Exchange Rate	NTD	Foreign Currencies	Exchange Rate	NTD
Financial assets						
Monetary items:						
USD	$7,597	29.980	$227,791	$13,529	30.715	$415,551
CNY	$61,860	4.297	$265,844	$71,834	4.475	$321,481
Financial liabilities						
Monetary items:						
USD	$4,331	29.980	$129,846	$3,577	30.844	$110,318
CNY	$6,422	4.297	$27,598	$5,204	4.475	$23,287

Foreign currencyresulting in exchange gain or loss	2019		2018
USD	$1,242	USD	$18,429
CNY	$(9,807)	CNY	$(1,635)
Other	$70	Other	$1,638

(10)Capital management

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

13.ADDITIONAL DISCLOSURES

(1)Information on significant transactions

A.Financing provided to others: None.

B.Endorsement/Guarantee provided to others: None.

C.Marketable securities held as of December 31, 2019 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 1.

D.Individual securities acquired or disposed of with accumulated amount of at least NT$ 300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 2.

E.Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 3.

F.Disposal of individual real estate with amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

G.Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 4.

H.Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2019: Please refer to attachment 5.

I.Derivative instrument transactions: None.

J.InterGroup relationships and significant interGroup transactions for the year ended December 31, 2019: Please refer to attachment 8.

(2)Information on investees

A.Investees over whom the Group exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 6.

B.Investees over which the Group exercises control shall be disclosed of information under Note 13(1):

a.Financing provided to others: None.

b.Endorsement/Guarantee provided to others: None.

c.Marketable securities held as of December 31, 2019 (excluding investments in subsidiaries, associates and joint ventures): None.

d.Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

e.Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

f.Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

g.Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 7.

h.Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31 2019: None.

i.Derivative instrument transactions: None.

(1) Information on investments in Mainland China:

A. Name of investee in China, main business, paid-in capital, method of investment, investment flows, percentage of ownership, investment gain or loss, carrying amount at the end of reporting period, inward remittance of earning or loss and the upper limit on investment in China:

(In Thousands of New Taiwan Dollars)

Name of Investee in China	Main Business	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Profit/ Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019	Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment in China by Investment Commission, MOEA
					Outflow	Inflow									
Pegavision Contact Lenses (Shanghai) Corporation	Selling medical equipment	$112,559 (Note 4)	(Note 1)	$65,062	$47,497	$-	$112,559	$(5,231) (Note 3 and 6)	100%	$(5,231) (Note 3 , 6 and 8)	$99,291 (Note 3 , 6 and 8)	$-	$112,559	$112,559	$2,432,223
Gemvision Technology (Zhejiang) Limited	Selling medical equipment	$43,886 (Note 3 and 5)	(Note 2)	$-	$-	$-	$-	$(5,261) (Note 3 and 6)	100%	$(5,261) (Note 3, 6 ,7 and 8)	$37,935 (Note 3, 6 , 7 and 8)	$-	$-	$-	

Note 1: Investment in Mainland China through companies in the third area.

Note 2: 100% Shares of Gemvision Technology owned and indirectly invested by Pegavision Contact Lenses (Shanghai) Corporation.

Note 3: Amounts in foreign currencies are translated into New Taiwan dollars using the exchange rates on the balance sheet date.

Note 4: The paid-in capital is USD3,600 thousand, equivalent to NT$112,559 thousand.

Note 5: The paid-in capital is CNY10,000 thousand.

Note 6: Gain/loss on investment is recognized based on the audited financial statements of the parent company’s auditors in Taiwan.

Note 7: Pegavision Contact Lenses (Shanghai) Corporation recognized the profit/loss and carrying amount of Gemvision Technology (Zhejiang) Limited.

Note 8: Transactions between consolidated entities are eliminated in the consolidated financial statements.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

B.Significant transactions with investees in China:

a.Purchase and balances of related accounts payable as of December 31, 2019: None.

b.Sale and balance of related accounts receivable as of December 31, 2019:

	Sales		Account Receivable	
	Amont	Percentage of the net sales	Amont	Percentage of the Account Receivable
Pegavision Contact Lenses (Shanghai) Corporation	$127,282	4.11%	$124,211	29.90%
Gemvision Technology (Zhejiang) Limited	51,499	1.66%	51,305	12.35%

Selling prices is set by the fixed price for sale to other customers and taking into account the cost of its after-sales services plus reasonable profit. Collection terms for general customers were 90 days after monthly closing while within 180 days after monthly closing for subsidiaries.

c.Property transaction amounts and resulting gain or loss: None.

d.Ending balance of endorsements/guarantees or collateral provided and the purposes: None.

e.Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.

f.Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered: None.

14.<u>OPERATING SEGMENT</u>

The major operating revenues of the Group come from selling contact lenses. The chief operating decision maker reviewed the overall operating results to make decision about resources to be allocated to and evaluated the overall performance.

(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

A.Geographical information

Revenues from external customers (Note)

	For the year ended December 31,	
	2019	2018
Taiwan	$771,905	$731,980
Other Asian countries	2,179,670	2,188,205
Other countries	403,558	212,486
Total	$3,355,133	$3,132,671

Note: The revenue information above is based on the location of the customers.

Non-current assets

	As of December 31,	
	2019	2018
Taiwan	$3,227,681	$2,510,258
China	21,275	2,560
Japan	1,499	102
Total	$3,250,455	$2,512,920

B.Information about major customers

Individual customer's sale accounted for at least 10% of consolidated net sale:

	For the year ended December 31,	
Name of customers	2019	2018
Customer A	$443,976	$386,968
Customer B	(Note)	357,148
Total	$443,976	$744,116

Note : This year the customer's sale accounted less than 10% of consolidated net sale, so it not expose.

Pegavision Corporation and Subsidiaries

Marketable Securities Held as of December 31, 2019 (excluding investments in subsidiaries, associates and joint ventures)

Attachment 1

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type and Name of Marketable Securities	Relationship with the Issuer	Financial Statement Account	As of December 31, 2019			Fair Value (Note)	Note
				Shares / Units	Carrying Amount	Shareholding %		
Pegavision Corporation	Money market funds:							
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss	11,778,166	$179,017	-%	$179,058	
	Yuanta DE-Li Money Market Fund	-	Financial assets at fair value through profit or loss	8,372,796	137,034	-%	137,062	
	Add: Valuation Adjustment				69			
	Total				$316,120		$316,120	

Note: Companies without quotes in the open markets are valued at net equities.

Pegavision Corporation and Subsidiaries

Individual Securities Acquired or Disposed of with accumulated amount of At Least NT$300 Million or 20% of The Paid-In Capital

For the Year Ended December 31, 2019

Attachment 2

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain/Loss on Disposal	Shares/Units	Amount
Pegavision Corporation	Money Market Funds:													
	Yuanta Wan Tai Money Market	Financial assets at fair value through profit or loss	-	-	-	$-	28,565,798	$434,000	16,787,632	$255,046	$254,983	$63	11,778,166	$179,017

Pegavision Corporation and Subsidiaries

Acquisition of Individual Real Estate with Amount of at Least NT$ 300 million or 20% of the Paid-in Capital

For the Year ended December 31, 2019

Attachment 3

(In Thousands of New Taiwan Dollars)

Acquiring Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party: Owner	Prior Transaction of Related Counter-party: Relationship with the Company	Prior Transaction of Related Counter-party: Transfer Date	Prior Transaction of Related Counter-party: Amount	Price Reference	Purpose and Use of Acquisition	Other Terms
Pegavision Corporation	Land	2018.06.26	$1,311,000	By contract	Inventec Corporation	None	None	None	None	None	The transaction amount refer to professional appraisal institutions.	Expand capacity to satisfy the growth of business sales.	None
	Building	2018.06.26	69,000										
		Total	$1,380,000										

Pegavision Corporation and Subsidiaries

Related Party Transactions with Purchase or Sales Amount of At least NT$100 Million or 20% of the Paid-in Capital

For the Year ended December 31, 2019

Attachment 4

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/ Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/ Collection Term	Unit Price	Payment/ Collection Term	Ending Balance	% to Total	
Pegavision Corporation	Pegavision Japan Inc.	Subsidiary	Sales	$1,353,073	43.70%	90 days after monthly closing	Similar to those to third party customers.	T/T to 90 days after monthly closing	Accounts receivable $146,953	35.37%	Note
Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary	Sales	$127,282	4.11%	Within 180 days after monthly closing	Similar to those to third party customers.	T/T to 90 days after monthly closing	Accounts receivable $124,211	29.90%	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

Pegavision Corporation and Subsidiaries

Receivables from Related Parties of at Least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2019

Attachment 5

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Ratio	Overdue		Amount Received in Subsequent Periods	Loss allowance
					Amount	Action Taken		
Pegavision Corporation	Pegavision Japan Inc.	Subsidiary	$146,953 (Note and Note 1)	10.70	$-	-	$81,616	$-
Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary	$124,211 (Note and Note 1)	0.78	$-	-	$59,313	$-

Note: Accounts receivable.

Note 1: Transactions are eliminated when preparing the consolidated financial statements.

Pegavision Corporation and Subsidiaries

Investees over Whom the Company Exercise Significant Influence or Control (Excluding Investees in Mainland China)

As of December 31, 2019

Attachment 6

(In Thousands of Foreign Currency / New Taiwan Dollars)

Investor	Investee	Business Location	Main Business and Product	Original Investment Amount		Ending balance			Net Income (Loss) of the Investee	Share of Income (Loss) of the Investee	Note
				As of December 31, 2019	As of December 31, 2018	Shares	%	Carrying Value			
Pegavision Corporation	Pegavision Holdings Corporation	Samoa	Investing activities	USD3,630	USD2,130	3,630,000	100.00%	$36,437	$(5,280)	$(5,280)	Note
Pegavision Corporation	Pagavision Japan Inc.	Japan	Selling Medical facility product technology	JPY 9,900	JPY 9,900	198	100.00%	$26,102	$16,418	$16,418	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

Pegavision Corporation and Subsidiaries

Related Party Transactions with Purchase or Sales Amount of At least NT$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2019

Attachment 7

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/ Collection Term	Unit Price	Payment/ Collection Term	Ending Balance	% to Total	
Pegavision Japan Inc.	Pegavision Corporation	Subsidiary	Purchase	$1,353,073	100.00%	90 days after monthly closing	No suppliers to be compared with	No suppliers to be compared with	Accounts payable $146,953	100.00%	
Pegavision Contact Lenses (Shanghai) Corporation	Pegavision Corporation	Subsidiary	Purchase	$127,282	100.00%	Within 180 days after monthly closing	No suppliers to be compared with	No suppliers to be compared with	Accounts payable $124,211	100.00%	
Gemvision Technology (Zhejiang) Limited	Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary	Purchase	$118,586	67.55%	Within 180 days after monthly closing	Similar to those to third party suppliers	Similar to those to third party suppliers	Accounts payable $66,761	56.55%	

Pegavision Corporation and Subsidiaries

Intercompany Relationships and Significant Intercompany Transactions for the Year Ended December 31, 2019

Attachment 8

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counter-Party	Nature of Relationship (Note 2)	Intercompany Transaction			
				Financial Statement Account	Amount	Terms	Percentage to Consolidated Net Revenue or Total Assets (Note 3)
	2019.12.31						
0	Pegavision Corporation	Pegavision Japan Inc.	1	Sales revenue	$1,353,073	Payment 90 days from the end of delivery month	40.33%
0	Pegavision Corporation	Pegavision Japan Inc.	1	Accounts receivable	146,953	Payment 90 days from the end of delivery month	2.77%
0	Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	1	Sales revenue	127,282	Payment within 180 days from the end of delivery month	3.79%
0	Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	1	Accounts receivable	124,211	Payment within 180 days from the end of delivery month	2.34%
0	Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	1	Sales revenue	51,499	Payment within 180 days from the end of delivery month	1.53%
0	Pegavision Corporation	Gemvision Technology (Zhejiang) Limited	1	Accounts receivable	51,305	Payment within 180 days from the end of delivery month	0.97%
0	Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	1	Sales revenue	118,586	Payment within 180 days from the end of delivery month	3.53%
0	Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	1	Accounts receivable	66,761	Payment within 180 days from the end of delivery month	1.26%

Note 1: Transaction information between Parent company and its subsidiaries should be disclosed by codes below:

(1) Parent company is coded "0".

(2) The subsidiaries are coded from "1" in the order presented in the table above.

Note 2: Relationship are divided into the following three types and the types are required to be indicated:

(1) From the parent company to a subsidiary.

(2) From a subsidiary to the parent company.

(3) Between subsidiaries.

Note 3: Regarding the percentage of transaction amount to consolidated operating revenues or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet items; and based on interim accumulated amount to consolidated net revenue for income statement items.

Ticker: 6491

PEGAVISION CORPORATION
PARENT-COMPANY-ONLY FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
AS OF DECEMBER 31, 2019 AND 2018
AND FOR THE YEARS THEN ENDED

Address: No.5 Shing Yeh Street, GuiShan District, Taoyuan City, Taiwan 33341
Telephone: (03)329-8808

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

INDEPENDENT AUDITORS' REPORT

To: the Board of Directors and Shareholders of
Pegavision Corporation

Opinion

We have audited the accompanying parent-company-only balance sheets of Pegavision Corporation (the "Company") as of December 31, 2019 and 2018, and the related parent-company-only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent-company-only financial statements, including the summary of significant accounting policies (together referred as "the parent-company-only financial statements").

In our opinion, the parent-company-only financial statements referred to above present fairly, in all material respects, the parent-company-only financial position of the Company as of December 31, 2019 and 2018, and their parent-company-only financial performance and cash flows for the years then ended, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Parent-Company-Only Financial Statements section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in our audit of parent-company-only financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the parent-company-only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

We determine that revenue recognition is one of the key audit matters. The Company's revenue amounting to NT$3,096,188 thousand for the year ended December 31, 2019 is a significant account to the Company's financial statements. The Company has conducted these sale activities in multi-marketplace, including Taiwan, China, Japan, etc. Furthermore, the timing of fulfilling performance obligation needs to be determined based on varieties of sale terms and conditions enacted in the main sale contracts or sale orders. We therefore conclude that there are significant risks with respect to the topic of revenue recognition.

Our audit procedures therefore include, but not limit to, evaluating the properness of accounting policy for revenue recognition, assessing and testing the effectiveness of relevant internal controls related to revenue recognition, sampling-test of details, including obtaining major sale orders or agreements to inspect the terms and conditions, checking the consistency of the fulfillment timing, performing analytical review procedures on sale revenues, and executing sale cut-off tests, etc. Besides, we evaluate whether the parameter which the management used as for the individual price estimates is appropriate and whether the trade price is allocated properly. We also recalculated the amount of the customer loyalty programmes as of December 31, 2019. We have also evaluated the appropriateness of the related disclosure in Note 6 to the financial statements.

Market valuation on Inventory

We determined the market valuation on inventory is also one of key audit matters. The Company's net inventory amounted to NT$502,797 thousand, representing 10% of total assets, as of December 31, 2019, which is significant to the Company's financial statements. The market of the Company's main products, is characterized by fierce competition and the trend of consumers' preference, management, in timely considering the status of new products development and the demand from clients, has to evaluate the loss due to market value decline as well as write-down on slow-moving inventories to their net realizable value.

Our audit procedures therefore include, but not limit to, evaluating the Company's policy with respect to assessment the loss from slow-moving inventory and phased-out items, (including identification method, testing the accuracy of inventory aging schedule, analysis on inventory movement), evaluating the physical inventory stock take plan report provided by the management and choose the significant location to perform the observation, and inspecting the current status of inventory usage, etc. We also evaluated the appropriateness of related disclosure in the Note 5 and 6 to the financial statements.

Responsibilities of Management and Those Charged with Governance for the Parent-Company-Only Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Parent-Company-Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent-company-only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent-company-only financial statements.

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

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

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent-company-only financial statements, including the accompanying notes, and whether the parent-company-only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent-company-only financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2019 parent-company-only financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

/s/Cheng,Ching – Piao

/s/Kuo,Shao – Pin

Ernst & Young
Taiwan, R.O.C
February 10th, 2020

<u>Notice to Readers</u>

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

Accordingly, the accompanying parent-company-only financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the financial statements are the responsibility of the management, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

Pegavision Corporation
Parent-Company-Only Balance Sheets
As of December 31, 2019 and 2018
(Amounts Expressed in Thousands of New Taiwan Dollars)

Assets			2019		2018	
Code	Accounts	Notes	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	4,6(1)	$589,701	11	$351,789	9
1110	Financial assets at fair value through profit or loss	4,6(2)	316,120	6	-	-
1136	Financial assets measured at amortized cost	4,6(3)	-	-	75,281	2
1170	Accounts receivable, net	4,6(4)	92,997	2	132,144	3
1180	Accounts receivable - related parties, net	4,6(4),7	322,474	6	307,194	7
1200	Other receivables		2,338	-	3,834	-
1310	Inventories, net	4,6(5)	502,797	10	701,746	17
1410	Prepayments		18,882	1	16,772	-
1470	Other current assets		9,309	-	12,445	-
11XX	Total current assets		1,854,618	36	1,601,205	38
	Non-current assets					
1550	Investment accounted for under equity method	4,6(6)	62,539	1	10,200	-
1600	Property, plant and equipment, net	4,6(7),8	3,023,144	58	2,057,132	49
1755	Right-of-use assets, net	4,6(18)	150,715	3	-	-
1780	Intangible assets, net	4,6(8)	4,536	-	2,306	-
1840	Deferred tax assets	4,6(22)	3,949	-	2,491	-
1900	Other non-current assets	6(7),6(9),7,8,9	113,778	2	519,879	13
15XX	Total non-current assets		3,358,661	64	2,592,008	62
1XXX	Total Assets		$5,213,279	100	$4,193,213	100

(The accompanying notes are an integral part of the parent-company-only financial statements.)

Pegavision Corporation
Parent-Company-Only Balance Sheets (Continued)
As of December 31, 2019 and 2018
(Amounts Expressed in Thousands of New Taiwan Dollars)

Liabilities and Equity			2019		2018	
Code	Accounts	Notes	Amount	%	Amount	%
	Current liabilities					
2100	Short-term borrowings	6(10)	$128,914	2	$159,501	4
2130	Contract liabilities	6(16)	31,448	1	155,577	4
2150	Notes payable		3,730	-	1,179	-
2170	Accounts payable		99,619	2	111,716	3
2200	Other payables	6(11), 7	622,460	12	832,169	20
2230	Current tax liabilities	4,6(22)	21,049	-	209,391	5
2280	Lease liabilities	4,6(18)	109,912	2	-	-
2300	Other current liabilities	6(12),6(13),7,8	86,076	2	175,727	4
21XX	Total current liabilities		1,103,208	21	1,645,260	40
	Non-current liabilities					
2540	Non-current portion of long-term borrowings	6(13),8	-	-	487,500	11
2570	Deferred tax liabilities	4,6(22)	8,623	-	4,652	-
2580	Lease liabilities	4,6(18)	46,981	1	-	-
2645	Guarantee deposits received		762	-	2,059	-
2650	Credit for investments accounted for under the equity method	4,6(6)	-	-	45,900	1
25XX	Total non-current liabilities		56,366	1	540,111	12
2XXX	Total liabilities		1,159,574	22	2,185,371	52
3100	Capital	6(15)				
3110	Common stock		700,000	14	600,000	14
3200	Capital surplus	6(15)	1,804,928	35	240,000	6
3300	Retained earnings	6(15)				
3310	Legal reserve		123,630	2	69,515	2
3320	Special reserve		5,237	-	4,491	-
3350	Unappropriated retained earnings		1,429,704	27	1,099,073	26
3400	Other equity interest		(9,794)	-	(5,237)	-
3XXX	Total equity		4,053,705	78	2,007,842	48
	Total liabilities and equity		$5,213,279	100	$4,193,213	100

(The accompanying notes are an integral part of the parent-company-only financial statements.)

Pegavision Corporation
Parent-Company-Only Statements of Comprehenstve Income
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Thousands of New Taiwan Dollars, Except Earnings Per Share)

Code	Accounts	Notes	2019 Amount	2019 %	2018 Amount	2018 %
4000	Operating revenue	4,6(16),7	$3,096,188	100	$3,198,837	100
5000	Operating costs	6(4),7	(1,804,453)	(58)	(1,584,770)	(49)
5900	Gross profit from operations		1,291,735	42	1,614,067	51
5910	Unrealized gross profit (loss) from sales		44,161	1	(96,779)	(3)
5950	Gross profit from operations		1,335,896	43	1,517,288	48
6000	Operating expenses	7				
6100	Selling expenses		(335,227)	(11)	(334,704)	(11)
6200	Administrative expenses		(156,743)	(5)	(165,938)	(5)
6300	Research and development expenses		(279,802)	(9)	(237,958)	(7)
6450	Expected credit gains (losses)	6(17)	2,192	-	(2,778)	-
	Operating expenses total		(769,580)	(25)	(741,378)	(23)
6900	Operating income		566,316	18	775,910	25
7000	Non-operating income and expenses	6(20)				
7010	Other income		10,939	-	9,882	-
7020	Other gains and losses		(19,213)	-	(30,973)	(1)
7050	Finance costs		(21,865)	-	(9,922)	-
7060	Share of profit or loss of subsidiaries, associates and joint ventures	4,6(6)	11,138	-	8,958	-
	Non-operating income and expense total		(19,001)	-	(22,055)	(1)
7900	Income from continuing operations before income tax		547,315	18	753,855	24
7950	Income tax	4,6(22)	(71,823)	(3)	(212,699)	(7)
8200	Net income		475,492	15	541,156	17
8300	Other comprehensive income (loss)	6(21)				
8360	Items that may be reclassified subsequently to profit or loss					
8380	Share of other comprehensive income (loss) of subsidiaries, associates and joint ventures		(4,557)	-	(746)	-
	Total other comprehensive income, net of tax		(4,557)	-	(746)	-
8500	Total comprehensive income		$470,935	15	$540,410	17
9750	Earnings per share - basic (in NT$)	4,6(23)	$7.62		$9.02	
9850	Earnings per share - diluted (in NT$)	4,6(23)	$7.56		$8.93	

(The accompanying notes are an integral part of the parent-company-only financial statements.)

Pegavision Corporation
Parent-Company-Only Statements of Changes in Equity
For the Years Ended December 31, 2019 and 2018
(Amounts Expressed in Thousands of New Taiwan Dollars)

	Items	Capital	Capital Surplus	Retained Earnings			Other Components of equity	Total Equity
				Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange differences arising on translation of foreign operations	
Code		3100	3200	3310	3320	3350	3410	3XXX
A1	Balance as of January 1, 2018	$600,000	$240,000	$39,224	$3,564	$589,135	$(4,491)	$1,467,432
	Appropriation and distribution of 2017 earnings:							
B1	Legal reserve appropriated			30,291		(30,291)		-
B3	Special reserve appropriated				927	(927)		-
D1	Net income for 2018					541,156		541,156
D3	Other comprehensive income (loss) for 2018						(746)	(746)
D5	Total comprehensive income	-	-	-	-	541,156	(746)	540,410
Z1	Balance as of December 31, 2018	$600,000	$24,000	$69,515	$4,491	$1,099,073	$(5,237)	$2,007,842
A1	Balance as of January 1, 2019	$600,000	$240,000	$69,515	$4,491	$1,099,073	$(5,237)	$2,007,842
	Appropriation and distribution of 2018 earnings:							
B1	Legal reserve appropriated			54,115		(54,115)		-
B3	Special reserve appropriated				746	(746)		-
B5	Cash dividends - common shares					(90,000)		(90,000)
D1	Net income for 2019					475,492		475,492
D3	Other comprehensive income (loss) for 2019						(4,557)	(4,557)
D5	Total comprehensive income	-	-	-	-	475,492	(4,557)	470,935
E1	Capital increase by cash	100,000	1,564,928					1,664,928
Z1	Balance as of December 31, 2019	$700,000	$1,804,928	$123,630	$5,237	$1,429,704	$(9,794)	$4,053,705

(The accompanying notes are an integral part of the parent-company-only financial statements.)

Pegavision Corporation

Parent-Company-Only Statements of Cash Flows

For the Years Ended December 31, 2019 and 2018

(Amounts Expressed in Thousands of New Taiwan Dollars)

Code	Items	2019	2018
AAAA	Cash flows from operating activities:		
A10000	Net income before tax	$547,315	$753,855
A20000	Adjustments:		
A20010	Profit or loss not effecting cash flows:		
A20100	Depreciation (including right-of-use assets)	676,594	512,720
A20200	Amortization	1,866	1,199
A20300	Expected credit losses (gain)	(2,192)	2,778
A20400	Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	(69)	8
A20900	Interest expense	21,865	9,922
A21200	Interest income	(3,178)	(6,186)
A22300	Share of profit or loss of subsidiaries, associates and joint ventures	(11,138)	(8,958)
A22500	Loss on disposal of property, plant and equipment	(16)	(290)
A23100	Gain on disposal of investments	(97)	(140)
A23700	Impairment loss on non-financial assets	12,149	49,770
A23900	Unrealized (gains) losses	(44,161)	96,779
A30000	Changes in operating assets and liabilities:		
A31115	Financial assets at fair value through profit or loss	(315,954)	132,040
A31150	Accounts receivable	41,339	(19,436)
A31160	Accounts receivable - related parties	(15,280)	(268,293)
A31180	Other receivables	303	80
A31200	Inventories	198,949	(391,826)
A31230	Prepayments	(2,110)	6,760
A31240	Other current assets	3,136	21,201
A32125	Contract liabilities	(124,129)	12,462
A32130	Notes payable	2,551	(1,938)
A32150	Accounts payable	(12,097)	16,167
A32180	Other payables	(70,586)	209,618
A32230	Other current liabilities	22,849	32,487
A33000	Cash generated from operations	927,909	1,160,779
A33100	Interest received	4,371	5,028
A33300	Interest paid	(20,481)	(8,931)
A33500	Income tax paid	(257,652)	(56,936)
AAAA	Net cash provided by (used in) operating activities	654,147	1,099,940
BBBB	Cash flows from investing activities:		
B00040	Disposal (acquisition) of financial assets at amortised cost	75,281	(75,281)
B01800	Acquisition of investment accounted for under equity method	(47,497)	-
B02700	Acquisition of property, plant and equipment	(1,258,880)	(1,738,466)
B02800	Proceeds from disposal of property, plant and equipment	16	290
B03700	Decrease (increase) in refundable deposits	4,567	(9,827)
B04500	Acquisition of intangible assets	(4,096)	(2,873)
BBBB	Net cash provided by (used in) investing activities	(1,230,609)	(1,826,157)
CCCC	Cash flows from financing activities:		
C00100	Increase in (repayment of) short-term borrowings	(30,587)	62,662
C01600	Increase in long-term borrowings	1,100,000	800,000
C01700	Repayment of long-term borrowings	(1,700,000)	(301,000)
C03000	Increase in guarantee deposits received	(1,297)	1,477
C04020	Payments of lease liabilities	(128,670)	-
C04500	Cash dividends paid	(90,000)	-
C04600	Capital increase by cash	1,664,928	-
CCCC	Net cash provided by (used in) financing activities	814,374	563,139
EEEE	Net Increase (decrease) in cash and cash equivalents	237,912	(163,078)
E00100	Cash and cash equivalents at beginning of period	351,789	514,867
E00200	Cash and cash equivalents at end of period	$589,701	$351,789

(The accompanying notes are an integral part of the parent-company-only financial statements.)

1.HISTORY AND ORGANIZATION

Pegavision Corporation (referred to "the Company") was established on August 12, 2009. Its main business activities include the manufacture of medical device, optical instrument, precision instrument and sales of the previous related products. The Company's stocks have been governmentally approved on October 7, 2014 to be listed and traded in Taiwan Over-The-Counter Securities Exchanges starting December 30, 2014, and traded in Taiwan Stock Exchange starting on October 7, 2019. The registered business premise and main operation address is at No.5 Shing Yeh Street, GuiShan District, Taoyuan City, Taiwan 33341.

Kinsus Interconnect Technology Corp. is the Company's parent, while Pegatron Corporation is the ultimate controller of the Group to which the Company belongs.

2.DATE AND PROCEDURE OF AUTHORIZATION FOR FINANCIAL STATEMENTS ISSUANCE

The financial statements of the Company were authorized to be issued in accordance with a resolution of the Board of Directors' meeting held on February 10th, 2020.

3.NEWLY ISSUED OR REVISED STANDARDS AND INTERPRETATIONS

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

The Company applied for the first time the International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2019. The nature and the impact of each new standard and amendment that has a material effect on the Company is described below:

A.IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Company followed the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarised as follows:

a.Please refer to Note 4 for the accounting policies before or after January 1, 2019.

b.For the definition of a lease, the Company elected not to reassess whether a contract was, or contains, a lease on January 1, 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after January 1, 2019, the Company need to assess whether contacts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract converys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assessed most of the contracts are, or contain, leases and has no significant impact arised.

c.The Company is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Company recognizes the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

I.Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Company measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019 and; The Company chooses, on a lease-by-lease basis, to measure the right-of-use asset at either:

An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Company’s right-of-use asset and lease liability increased by NT$293,055 thousand and NT$293,055 thousand, respectively.

In accordance with the transition provision in IFRS 16, the Company used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

ii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of January 1, 2019.

iii. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.

iv. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

II. Please refer to Note 4 and Note 6 for additional disclosure of lessee and lessor which required by IFRS 16.

III. As at January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarised as follows:

i. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 1.30%.

ii. For leases that were classified as operating leases applying IAS 17, lease payments are recognized as an expense on a straight-line basis over the lease term. After adopting IFRS 16, the Company expects to measure and recognize those leases, except for short-term or low-value asset lease exemptions, as lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1,2019. Operating lease commitments under IAS 17 as of December 31, 2018 were NT$297,120 thousand and the present value discounted at the incremental borrowing rate on January 1, 2019 were NT$293,055 thousand. Thus, lease liabilities as of January 1, 2019 under IFRS 16 were recorded at NT$293,055 thousand.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	Definition of a Business - Amendments to IFRS 3	January 1, 2020
b	Definition of Material - Amendments to IAS 1 and 8	January 1, 2020
c	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	January 1, 2020

A.Definition of a Business - Amendments to IFRS 3

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

B.Definition of a Material - Amendments to IAS 1 and 8

The main amendment is to clarify new definition of material. It states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

C.Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments include a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

The amendments include:

a.highly probable requirement

When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

b.prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

c.IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80–125%) for hedging relationships directly affected by the interest rate benchmark reform.

d.separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2020. The Company assesses all standards and interpretations have no material impact on the Company.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 "Insurance Contracts"	January 1, 2021
c	Classfication of Liabilities as Current or Non-Current- Amendments to IAS 1	January 1, 2022

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

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B.IFRS 17 Insurance Contracts

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a company of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

a.Estimates of future cash flows;
b.Discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows; and
c.A risk adjustment for non-financial risk.

The carrying amount of a company of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

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

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

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

4.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1)Statement of compliance

The parent-company-only financial statements of the Company for the years ended December 31, 2019 and 2018 were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations").

(2)Basis of preparation

The Company prepared parent-company-only financial statements in accordance with Article 21 of the Regulations, which provided that the profit or loss and other comprehensive income for the period presented in the parent-company-only financial statements shall be the same as the profit or loss and other comprehensive income attributable to stockholders of the parent presented in the consolidated financial statements for the period, and the total equity presented in the parent-company-only financial statements shall be the same as the equity attributable to the parent company presented in the consolidated financial statements. Therefore, the Company accounted for its investments in subsidiaries using equity method and, accordingly, made necessary adjustments.

The parent-company-only financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value. The parent-company-only financial statements are expressed in thousands of New Taiwan Dollars ("NT$") unless otherwise stated.

(3)Foreign currency transactions

The Company's parent-company-only financial statements are presented in its functional currency, New Taiwan Dollars (NTD). Items included in the parent-company-only financial statements are measured using that functional currency.

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

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

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

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

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

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

(4)Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NTD at the closing rate of exchange prevailing at the reporting date and the income and expenses are translated at an average exchange rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The following are accounted for as disposals even if an interest in the foreign operation is retained by the Company: the loss of control over a foreign operation, the loss of significant influence over a foreign operation, or the loss of joint control over a foreign operation.

On partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is re-attributed to the non-controlling interests in that foreign operation. In partial disposal of an associate or jointly controlled entity that includes a foreign operation that does not result in a loss of significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profit or loss.

(5)Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(6)Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (include fixed-term deposits that have matures of 3 months from the date of acquisition).

(7)Financial instruments

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

The Company determines the classification of its financial assets at initial recognition. In accordance with IFRS 9 and the Regulations, financial assets of the Company are classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets measured at amortized cost and notes, accounts and other receivables. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

A.Financial assets: Recognition and Measurement

Purchase or sale of financial assets is recognized using trade date accounting. The Company classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

a.The Company's business model for managing the financial assets and
b.The contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

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

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

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

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

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

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

Financial asset measured at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

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

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

a.A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.

b.When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

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

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

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

Besides, for certain equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, the Company made an irrevocable elction to present the changes of the fair value in other comprehensive income at initial recognition. Amounts presented in other comprehensive income are not be subsequently transferred to profit or loss (when disposal of such equity instrument, its cumulated amount included in other components of equity is transferred directly to the retained earnings) and these investments should be presented as financial assets measured at fair value through other comprehensive income on balance sheet. Dividends on such investment are recognized in profit or loss unless the dividends clearly represents a recovery of part of the cost of investment.

Financial asset measured at fair value through profit or loss

Financial assets were classified as measured at amortized cost or measured at fair value through other comprehensive income based on aforementioned criteria. All other financial assets were measured at fair value through profit or loss and presented on the balance sheet as financial assets measured at fair value through profit or loss.

Such financial assets are measured at fair value, the gains or losses resulting from remeasurement is recognized in profit or loss which includes any dividend or interest received on such financial assets.

B.Impairment of financial assets

The Company is recognized a loss allowance for expected credit losses on debt instrument investments measured at fair value through other comprehensive income and financial asset measured at amortized cost. The loss allowance on debt instrument investments measured at fair value through other comprehensive income is recognized in other comprehensive income and not reduce the carrying amount in the statement of financial position.

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

a.An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
b.The time value of money; and
c.Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follows:

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

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

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

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

C.Derecognition of financial assets

A financial asset is derecognized when:

a.The rights to receive cash flows from the asset have expired
b.The Company has transferred the asset and substantially all the risks and rewards of the asset have been transferred
c.The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

D.Financial liabilities and equity

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

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. A financial liability is classified as held for trading if:

a. It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
b. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

a. It eliminates or significantly reduces a measurement or recognition inconsistency; or
b. A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Company is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

E.Offsetting of financial instruments

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

(8)Fair value measurement

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

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

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

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

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

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

(9)Inventories

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

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

Raw materials - At actual purchase cost, using first in first out method
Finished goods and work in progress - Cost of direct materials and labor and a proportion of manufacturing overheads excluding borrowing costs.

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

(10)Investments accounted for using the equity method

The Company accounted for its investments in subsidiaries using equity method and made necessary adjustments in accordance with Article 21 of the Regulations. Such adjustments were made after the Company considered the different accounting treatments to account for its investments in subsidiaries in the consolidated financial statements under IFRS 10 “Consolidated Financial Statements” and the different IFRSs adopted from different reporting entity’s perspectives, and the Company recorded such adjustments by crediting or debiting to investments accounted for under the equity method, share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income of subsidiaries, associates and joint ventures.

The Company's investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate or investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Company and the associate or joint venture are eliminated to the extent of the Company's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affects the Company's percentage of ownership interests in the associate or joint venture, the Company recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a prorata basis.

When the associate or joint venture issues new stock, and the Company's interest in an associate or a joint venture is reduced or increased as the Company fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in Additional Paid in Capital and Investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Company disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36

Impairment of Assets. In determining the value in use of the investment, the Company estimates:

A. Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or

B. The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 Impairment of Assets.

Upon loss of significant influence over the associate or joint venture, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(11) Property, plant and equipment

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

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

Buildings	16.5 years
Machinery and equipment	6 years
Transportation equipment	2～6 years
Office equipment	3～6 years
Other equipment	1～11 years

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

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

(12)Leases

The accounting policy from January 1, 2019 as follow:

For contracts entered on or after 1 January 2019, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, has both of the following:

A.The right to obtain substantially all of the economic benefits from use of the identified asset; and
B.The right to direct the use of the identified asset.

The Company elected not to reassess whether a contract is, or contains, a lease on 1 January 2019. The Company is permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

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

<u>Company as a lessee</u>

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

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

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

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

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

A.the amount of the initial measurement of the lease liability;
B.any lease payments made at or before the commencement date, less any lease incentives received;
C.any initial direct costs incurred by the lessee; and

D. an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

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

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

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

Company as a lessor

At inception of a contract, the Company classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Company recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

For a contract that contains lease components and non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

The Company recognizes lease payments from operating leases as rental income on either a straight-line basis or another systematic basis. Variable lease payments for operating leases that do not depend on an index or a rate are recognized as rental income when incurred.

The accounting policy before January 1, 2019 as follow:

Company as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(13)Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, not meeting the recognition criteria, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

A summary of the policies applied to the Company's intangible assets is as follows:

	Cost of Computer Software
Useful economic life	2~5 years
Amortization method	Straight-line method during the contract term
Internally generated or acquired externally	Acquired externally

(14)Impairment of non-financial assets

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

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

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(15)Revenue recognition

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

Sale of goods

The Company manufactures and sells of its products. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Company is contact lenses and revenue is recognized based on the consideration stated in the contract. The Company recognized an allowance for sale return and discount shall be presented under the caption of refund liabilities within other current liabilities when partial or all considerations received might be returned or a chargeback is expected to occur.

The credit period of the Company's sale of goods is from T/T to 90 days. For most of the contracts, when the Company transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Company usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

(16)Borrowing costs

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

(17)Post-employment benefits

All regular employees of the Company are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee's name in the specific bank account and hence, not associated with the Company.

Therefore, fund assets are not included in the Company's parent-company-only financial statements.

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

(18)Income tax

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

<u>Current income tax</u>

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

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

<u>Deferred income tax</u>

Deferred income tax is a temporary difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized according.

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company’s parent-company-only financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

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

(1)Revenue recognition - sale returns and allowances

The Company estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Please refer to Note 6 for more details.

(2)Income tax

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

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

(3)Accounts receivables - estimation of impairment loss

The Company estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(4)Inventory

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

6.CONTENTS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

	As of December 31,	
	2019	2018
Cash and petty cash	$2,191	$4,980
Checkings and savings	224,552	252,100
Time deposit	362,958	94,709
Total	$589,701	$351,789

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

	As of December 31,	
	2019	2018
Mandatorily measured at fair value through profit or loss:		
Money market fund	$316,051	$-
Valuation adjustment	69	-
Total	$316,120	$-
Current	$316,120	$-
Non-current	-	-
Total	$316,120	$-

No financial asset measured at fair value through profit or loss was pledged as collateral.

(3)Financial assets measured at amortized cost

	As of December 31,	
	2019	2018
Time deposit	$-	$75,281
Less: loss allowance	-	-
Total	$-	$75,281
Current	$-	$75,281
Non-current	$-	$-

The Company deals with financial institution with good credit condition, there is no significant credit risk.

No financial assets measured at amortized cost were pledged as collateral.

(4)Accounts receivable and accounts receivable - related parties, net

A.Accounts receivable, net

	As of December 31,	
	2019	2018
Accounts receivable, gross	$94,856	$136,195
Less: loss allowance	(1,859)	(4,051)
Net of allowances	92,997	132,144
Accounts receivable - related parties, gross	322,474	307,194
Less: loss allowance	-	-
Net of allowances	322,474	307,194
Total accounts receivable, net	$415,471	$439,338

B.Accounts receivable were not pledged.

C.Accounts receivable are generally on T/T to 90 days terms. The total carrying amount is $417,330 thousand and 443,389 thousand as of December 31, 2019 and 2018, respectively. Please refer to Note 6(17) for more details on loss allowance of accounts receivable for the years ended December 31, 2019 and 2018. Please refer to Note 12 for more details on credit risk management.

(5)Inventory

A.Details of inventory:

	As of December 31, 2019	As of December 31, 2018
Merchandises	$1,725	$-
Raw materials	26,045	51,172
Supplies	1,515	3,872
Work in process	295,875	344,032
Finished goods	177,637	302,670
Total	$502,797	$701,746

B.For the years ended December 31, 2019 and 2018, the Company recognized NT$1,804,453 thousand and NT$1,584,770 thousand under the caption of costs of sale, respectively. The following items were also included in cost.

Item	For the year ended December 31, 2019	For the year ended December 31, 2018
Loss (Gain) from inventory market decline	$30,072	$7,581
Loss from inventory write-off obselencense	13,355	6,899
Loss (Gain) from physical taking	-	8
Total	$43,427	$14,488

C.The inventories were not pledged.

(6)Investments accounted for under the equity method/ Credit for investments accounted for under the equity method

	As of December 31,			
	2019		2018	
Investee companies	Amount	Percentage of Ownership	Amount	Percentage of Ownership
Investments in subsidiaries:				
Pegavision Holdings Corporation	$36,437	100.00%	$(45,900)	100.00%
Pegavision Japan Inc.	26,102	100.00%	10,200	100.00%
Total	$62,539		$(35,700)	

A. Investments in subsidiaries were present in the parent-company-only financial statements under the caption of investments accounted for under equity method or credit for investment accounted for the equity method. Valuation adjustment is made if deemed necessary.

B. The Company's investments accounted for under the equity method were not pledged.

(7)Property, plant and equipment

	As of December 31,	
	2019 (Note)	2018
Owner occupied property, plant and equipment	$3,023,144	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

A. Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land	Buildings	Machinery and equipment	Transportation equipment	Computer equipment	Other equipment	Construction in progress and equipment awaiting inspection (including prepayment for equipment)	Total
Cost:								
As of 1/1/2019	$-	$-	$2,671,754	$1,576	$64,563	$658,861	$586,543	$3,983,297
Addition	-	-	-	-	-	-	1,125,024	1,125,024
Disposals	-	-	(10,695)	-	(3,550)	(10,618)	-	(24,863)
Transfer	1,317,564	69,345	114,479	-	16,149	76,784	(1,598,417)	(4,096)
Other changes	-	-	-	-	-	-	-	-
As of 12/31/2019	$1,317,564	$69,345	$2,775,538	$1,576	$77,162	$725,027	$113,150	$5,079,362
Depreciation and impairment:								
As of 1/1/2019	$-	$-	$1,092,688	$1,006	$47,173	$334,478	$-	$1,475,345
Depreciation	-	3,872	436,454	160	12,640	91,175	-	544,301
Impairment loss	-	-	11,436	-	-	713	-	12,149
Disposal	-	-	(10,695)	-	(3,550)	(10,618)	-	(24,863)
Transfer	-	-	-	-	-	-	-	-

Other changes	-	-	-	-	-	-	-	-
As of 12/31/2019	$-	$3,872	$1,529,883	$1,166	$56,263	$415,748	$-	$2,006,932
Net carrying amount:								
As of 12/31/2019	$1,317,564	$65,473	$1,245,655	$410	$20,899	$309,279	$113,150	$3,072,430

B.Property, plant and equipment (prior to the application of IFRS 16)

	Machinery and equipment	Transportation equipment	Computer equipment	Other equipment	Construction in progress and equipment awaiting inspection (including prepayment for equipment)	Total
Cost:						
As of 1/1/2018	$1,692,463	$1,121	$54,158	$526,888	$310,699	$2,585,329
Addition	-	-	-	-	1,454,217	1,454,217
Disposals	(40,025)	(525)	(86)	(12,740)	-	(53,376)
Transfer	1,019,316	980	10,491	144,713	(1,178,373)	(2,873)
Other changes	-	-	-	-	-	-
As of 12/31/2018	$2,671,754	$1,576	$64,563	$658,861	$586,543	$3,983,297
Depreciation and impairment:						
As of 1/1/2018	$693,642	$1,121	$36,893	$234,575	$-	$966,231
Depreciation	414,694	410	10,366	87,250	-	512,720
Impairment loss	24,377	-	-	25,393	-	49,770
Disposal	(40,025)	(525)	(86)	(12,740)	-	(53,376)
Transfer	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
As of 12/31/2018	$1,092,688	$1,006	$47,173	$334,478	$-	$1,475,345
Net carrying amount:						
As of 12/31/2018	$1,579,066	$570	$17,390	$324,383	$586,543	$2,507,952

C.Details of property, plant & equipment and prepayment for equipment is as follows:

	As of December 31,	
	2019	2018
Property, plant and equipment	$3,023,144	$2,057,132
Prepayment for equipment	49,286	450,820
Total	$3,072,430	$2,507,952

D.For the years ended December 31, 2019 and 2018, NT$12,149 thousand and NT$49,770 thousand impairment loss represented the write down of certain property, plant and equipment to the recoverable amount. This has been recognized in the statement of comprehensive income. The recoverable value is measured at usage values by the individual units.

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

(8)Intangible assets

	Computer software
Cost:	
As of January 1, 2019	$13,991
Additions – acquired separately	-
Transfer	4,096
Derecognized upon retirement	-
As of December 31, 2019	$18,087
As of January 1, 2018	$11,118
Additions – acquired separately	-
Transfer	2,873
Derecognized upon retirement	-
As of December 31, 2018	$13,991
Amortization and Impairment:	
As of January 1, 2019	$11,685
Amortization	1,866
Derecognized upon retirement	-
As of December 31, 2019	$13,551

As of January 1, 2018	$10,486
Amortization	1,199
Derecognized upon retirement	-
As of December 31, 2018	$11,685
Carrying amount, net:	
As of December 31, 2019	$4,536
As of December 31, 2018	$2,306

Amounts of amortization recognized for intangible assets are as follows.

	For the year ended December 31,	
	2019	2018
Selling expense	$45	$203
Administrative expense	1,674	871
Research and development expense	147	125
Total	$1,866	$1,199

(9)Other non-current assets

	As of December 31,	
	2019	2018
Refundable deposits	$64,492	$69,059
Prepayment for equipment	49,286	450,820
Total	$113,778	$519,879

(10)Short-term borrowings

	As of December 31,	
	2019	2018
Unsecured bank loans	$128,914	$159,501
Interest Rate (%)	2.48%~2.83%	1.10%~3.58%

The Company's unused short-term lines of credits amounts to NT$770,886 thousand and NT$598,112 thousand, as at December 31, 2019 and 2018, respectively.

(11)Other payable

	As of December 31,	
	2019	2018
Accrued expenses	$556,750	$627,336
Accrued interest payable	102	1,273
Payable to equipment suppliers	65,608	203,560
Total	$622,460	$832,169

(12)Other current liabilities

	As of December 31,	
	2019	2018
Other current liabilities	$18,604	$27,788
Current portion of long-term borrowings	-	112,500
Refund liability	67,472	35,439
Total	$86,076	$175,727

(13)Long-term borrowings

A.Details of long-term borrowings:

			As of December 31,		
Debtor	Type of Loan	Maturity	2019	2018	Repayment
The Shanghai Commercial & Savings Bank - ZhongLi Branch	Credit loan	2018.03.31-2021.03.31	$-	$200,000	Notes 1
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.05.10-2023.05.10	-	100,000	Notes 2
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.06.05-2023.06.05	-	40,000	Notes 2
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.06.25-2023.06.25	-	100,000	Notes 2
Mega International Commercial Bank - LanYa Branch	Credit loan	2018.06.29-2023.06.29	-	60,000	Notes 2
Chang Hwa Commercial Bank - Beitou Branch	Credit loan	2018.10.09-2023.10.09	-	100,000	Notes 2
Total			-	600,000	
Less: current portion			-	(112,500)	
Non-current portion			$-	$487,500	

Note 1: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 8 terms. Reimbursement in advance in 2019.

Note 2: A term is defined as every 3 months starting from the initial draw-down date. Grace period is 1 years (4 terms). The rest is repayable in installments of equal amount for 16 terms. Reimbursement in advance in 2019.

B. Please refer to Note 8 for more details regarding assets pleded for secured bank borrowings.

C.As of December 31, 2019 and 2018, the interest rate intervals for long-term borrowings were 1.20%~1.35% and 1.30%~1.35%, respectively.

(14)Post-employment benefits

<u>Defined contribution plan</u>

The Company adopted a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company has made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts.

Expenses under the defined contribution plan for the years ended December 31, 2019 and 2018 are NT$29,236 thousand and NT$29,516 thousand, respectively.

Pension for the years ended December 31, 2019 and 2018 were NT$52 thousand and NT$51 thousand, respectively.

(15)Equity

A.Common stock

As of December 31, 2019 and 2018, the Company's authorized capital were NT$800,000 thousand, and paid-in capital were NT$700,000 thousand and NT$600,000 thousand, each share at par value of NT$10, divided into 70,000 thousand and 60,000 thousand. Each share has one voting right and a right to receive dividends.

The Company passed the proposal of cash capital increase, 10,000 thousands shares, by board of directors on July 29, 2019. Except for 15% of new shares, 1,500 thousands shares, for employees to subscribe according to Article 267 of the Company Law, the remaining 8,500 thousands shares were given up by shareholders through the shareholders' meeting on June 16, 2015. The Company consigned the underwriter to underwrite before listing. The proposal of cash capital increase were effectively registered by Taiwan Stock Exchange on August 21, 2019. The base date of capital increase was October 4, 2019.

B.Capital surplus

	As of December 31,	
	2019	2018
Additional paid-in capital	$1,804,928	$240,000

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

C.Appropriation of earnings and dividend policies

a.Distribution of earnings

The Company’s shareholder’s meeting held on June 14, 2019 passed the resolution of amending the Articles of Incorporation, according to the Company’s Articles of Incorporation, current year’s earnings, if any, shall be distributed in the following order:

I. Payment of all taxes and dues;
II.Offset prior years’ operation losses;
III.Set aside 10% of the remaining amount as legal reserve. There is no requirement to further make such reserve when legal reserve reaches the capital amount.
IV.Set aside or reverse special reserve in accordance with law and regulations; and
V.The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders’ meeting.

If the above-mentioned dividends are distributed to shareholders in the form of cash, the Board of Directors have been authorized to approve by a resolution adopted by a majority vote at a meeting of Bord of Directors attended by two-thirds of the total number of directors, and report to the shareholder’s meeting.

b.Dividend policy

The Company is in an industry with versatile environment. For long-term finance planning requirements and to meet the shareholders' demand for cash, the Company's dividend policy aims for steadiness and balancing. Dividends to be distributed in cash for each year shall not be less than 10% of the total dividends paid.

c.Legal reserve

According to the Company Act, legal reserve shall be set aside until such amount equal total authorized capital. Legal reserve can be used to offset deficits. If the Company does not incur any loss, the portion of legal reserve exceeding 25% of the paid-in capital may be distributed to shareholders by issuing new shares or by cash in proportion to the number of shares held by each shareholder.

d.Special reserve

Pursuant to existing regulations, the Company is required to set additional special reserve equivalent to the net debit balance of the other components of shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

Following the adoption of T-IFRS, the FSC on April 6, 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the T-IFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserve. Following a company's adoption of the T-IFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserve, from the profit/loss of the current period and the undistributed earnings from the previous period, an amount equal to "other net deductions from shareholders' equity for the current fiscal year, provided that if the company has already set aside special reserve according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

The Company did not incur any special reserve upon the first-time adoption of T-IFRS.

e.The appropriations of earnings for the Years 2019 and 2018 were approved through the Board of Directors' meetings and shareholders' meetings held on February 10, 2020 and June 14, 2019, respectively. The details of the distributions are as follows.

	Appropriation of earnings		Dividend per share (in NT$)	
	2019	2018	2019	2018
Legal reserve	$47,549	$54,115		
Special reserve	4,557	746		
Cash dividend	175,000	90,000	$2.5	$1.5
Total	$227,106	$144,861		

Please refer to Note 6(19) for details on employees' compensation and remuneration to directors and supervisors.

(16)Operating revenue

	For the year ended December 31,	
	2019	2018
Revenue from customer contracts		
Sales of goods	$3,096,188	$3,198,837

Analysis of revenue from contracts with customers during the years ended December 31,2019 and 2018 are as follows:

A.Disaggregation of revenue

	For the year ended December 31,	
	2019	2018
	Single department	Single department
Sales of goods	$3,096,188	$3,198,837

The timing for revenue recognition:

At a point in time	$3,096,188	$3,198,837

B.Contract balances

a.Contract liabilities – current

As of	2019.12.31	2018.12.31	2018.01.01
Sales of goods	$16,600	$144,838	$139,074
Customer loyalty programmes	14,848	10,739	4,041
Total	$31,448	$155,577	$143,115

The significant changes in the Company's balances of contract liabilities for the year ended 31 December 2019 are as follows:

	Sales of goods	Customer loyalty programmes
The opening balance transferred to revenue	$(144,838)	$(10,739)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	16,600	14,848

The significant changes in the Company's balances of contract liabilities for the year ended 31 December 2018 are as follows:

	Sales of goods	Customer loyalty programmes
The opening balance transferred to revenue	$(138,466)	$(4,041)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	144,230	10,739

(17)Expected credit gains (losses)

	For the year ended December 31,	
	2019	2018
Operating expenses - Expected credit gains (losses)		
Accounts receivable	$2,192	$(2,778)

A. The Company condsiders the grouping of accounts receivable by counter-parties' credit rating, by geographical region and by industry sector, and its loss allowance is measured at on amount equal to lifetime expected credit losses. The assessment of the Company's loss allowance are as follow:

December 31, 2019

	Not past due	Past due <=60 days	Past due 61-90 days	Past due 91-240 days	Past due >=241 days	Total
Gross carrying amount	$417,330	$-	$-	$-	$-	$417,330
Loss rate	0.45%	0%	0%	0%	0%	
Lifetime expected credit losses	(1,859)	-	-	-	-	(1,859)
Carrying amount of accounts receivable	$415,471	$-	$-	$-	$-	$415,471

December 31, 2018

	Not past due	Past due <=60 days	Past due 61-90 days	Past due 91-240 days	Past due >=241 days	Total
Gross carrying amount	$443,389	$-	$-	$-	$-	$443,389
Loss rate	0.91%	0%	0%	0%	0%	
Lifetime expected credit losses	(4,051)	-	-	-	-	(4,051)
Carrying amount of accounts receivable	$439,338	$-	$-	$-	$-	$439,338

B. The movement in the provision for impairment of accounts receivable for the years 2019 and 2018 are as follows:

	Accounts receivable
As of January 1,2019	$4,051
Addition (reversal)	(2,192)
As of December 31,2019	$1,859
As of January 1,2018 (in accordance with IAS 39)	$1,273
Transition adjustment to retained earnings as at 1 Jan. 2018	-
As of January 1,2018 (in accordance with IFRS 9)	1,273
Addition (reversal)	2,778
As of December 31,2018	$4,051

(18)Leases

A.Company as a lessee (applicable to the disclosure requirement under IFRS 16)

The Company leases various properties, including real estate such as land and buildings, machinery and equipment and transportation equipment. The lease terms range from 1 to 7 years. The Company is not allowed to lend, sublease, or sell without obtaining the consent from the lessors.

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

a.Amounts recognized in the balance sheet

I.Right-of-use assets

	Land	Buildings	Machinery and equipment	Transportation equipment	Total
Cost:					
As of 1/1/2019	$-	$273,932	$17,793	$1,330	$293,055
Addition	1,743	31,496	-	1,160	34,399
Disposals	-	(47,449)	-	-	(47,449)
Transfer	-	-	-	-	-
As of 12/31/2019	$1,743	$257,979	$17,793	$2,490	$280,005
Depreciation and impairment:					
As of 1/1/2019	$-	$-	$-	$-	$-
Depreciation	581	124,009	6,888	815	132,293
Impairment loss	-	-	-	-	-
Disposals	-	(3,003)	-	-	(3,003)
Transfer	-	-	-	-	-
As of 12/31/2019	$581	$121,006	$6,888	$815	$129,290
Net carrying amount:					
As of 12/31/2019	$1,162	$136,973	$10,905	$1,675	$150,715

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

II.Lease liabilities

	As of December 31,	
	2019	2018 (Note)
Lease liabilities	$156,893	
Current	$109,912	
Non-current	$46,981	

Please refer to Note 6 (20)(c) for the interest on lease liabilities recognized during the year ended 31 December 2019 and refer to Note 12 (5) Liquidity Risk Management for the maturity analysis for lease liabilities as at December 31, 2019.

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

b.Income and costs relating to leasing activities

	For the year ended December 31,	
	2019	2018(Note)
The expenses relating to short-term leases	$(27,356)	
The expenses relating to leases of low-value assets	(1,137)	
Income from subleasing right-of-use assets	450	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

The portfolio of short-term leases of the Company to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expenses disclosed above, and the amount of its lease commitments is NT$0.

c.Cash outflow relating to leasing activities

During the year ended December 31, 2019, the Company's total cash outflows for leases amounting to NT$157,163 thousand.

B.Operating lease commitments - Company as a lessee (applicable to the disclosure requirement in IAS 17)

The Company has entered into commercial leases on plants. These leases have an average life of one to five years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2019 and 2018 are as follows:

	As of December 31,	
	2019 (Note)	2018
Not later than one year		$147,353
More than one year but less than five years		149,767
Total		$297,120

Operating lease expenses recognized are as follows:

	For the year ended December 31,	
	2019(Note)	2018
Minimum lease payments		$147,353

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(19)Summary statement of employee benefits, depreciation and amortization by function is as follows:

Function / Nature	2019			2018		
	Operating Costs	Operating expenses	Total	Operating Costs	Operating expenses	Total
Employee benefit expense						
Salaries	$487,330	$344,208	$831,538	$620,140	$344,528	$964,668
Labor and health insurance	48,773	28,787	77,560	49,353	22,336	71,689
Pension	15,734	13,554	29,288	18,323	11,244	29,567
Directors' remuneration	-	9,455	9,455	-	9,534	9,534
Other employee benefits expense	22,993	15,168	38,161	29,223	20,490	49,713
Depreciation	601,278	75,316	676,594	484,253	28,467	512,720
Amortization	-	1,866	1,866	-	1,199	1,199

Note:

1. The headcounts of the Company amounted to 1,382 and 1,476, respectively, as of December 31, 2019 and 2018. Among the Company's directors, there were 8 who were not the employees.
2. Companies who have been listed on Taiwan Stock Exchange or Taiwan Over-The Counter Securities Exchange should disclose the following information:
   (1)Average employee benefits of 2019 and 2018 are NT$711 thousand and NT$760 thousand respectively.
   (2)Average salaries of 2019 and 2018 are NT$605 thousand and NT$657 thousand respectively.
   (3)Changes in average salaries are (8)%.

According to the Article of Incorporation, not lower than 10% of profit of the current year is distributable as employees' compensation and no higher than 1% of profit of the current year is distributable as remuneration to directors and supervisors. However, the Company's accumulated losses shall have been covered.

The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on profit, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended December 31, 2019 amounted to NT$71,933 thousand and NT$6,255 thousand, respectively. The employees' compensation and remuneration to directors for the year ended December 31, 2018 amounted to NT$99,078 thousand and NT$8,615 thousand, respectively, recognized as employee benefits.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$71,933 thousand and NT$6,255 thousand, respectively, in a meeting held on February 10, 2020. No material differences exist between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2019.

The Company's Board has determined the employees' compensation and directors' renumeration, all in cash, to be NT$99,078 thousand and NT$8,612 thousand, respectively, in a meeting held on February 18, 2019. The NT$3 thousand differences between the estimated amount and the actual distribution of the employee bonuses and remuneration to directors for the year ended December 31, 2018, were recognized as gain or loss in the next year.

(20)Non-operating incomes and expenses

A.Other incomes

	For the year ended December 31,	
	2019	2018
Interest income		
Deposit interest	$2,579	$4,731
Financial assets measured at amortized cost	599	1,455
Subtotal	3,178	6,186
Rent income	450	1,309
Other income - others	7,311	2,387
Total	$10,939	$9,882

B.Other gains and losses

	For the year ended December 31,	
	2019	2018
Gains (losses) from disposal of property, plant and equipment	$16	$290
Gains (losses) on disposal of investments	97	140
Gains (losses) on financial assets at fair value through profit or loss	69	(8)
Gains (losses) on lease modification	184	-
Impairment loss on non-financial assets	(12,149)	(49,770)
Foreign exchange gains (losses), net	(7,323)	18,452
Other losses	(107)	(77)
Total	$(19,213)	$(30,973)

C.Finance costs

	For the year ended December 31,	
	2019	2018
Interests on borrowings from bank	$19,310	$9,922
Interest on lease liabilities	2,555	(Note)
Total	$21,865	$9,922

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(21)Components of other comprehensive income (loss)

For the year ended December 31, 2019

	Arising during the period	Reclassification during the period	Subtotal	Income tax benefit (expense)	OCI, Net of tax
May be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for under equity method	$(4,557)	$-	$(4,557)	$-	$(4,557)

For the year ended December 31, 2018

	Arising during the period	Reclassification during the period	Subtotal	Income tax benefit (expense)	OCI, Net of tax
May be reclassified to profit or loss in subsequent periods:					
Share of other comprehensive income of subsidiaries, associates, and joint ventures accounted for under the equity method	$(746)	$-	$(746)	$-	$(746)

(22)Income tax

Based on the amendments to the Income Tax Act announced on 7 February, 2018, the Company's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

A. The major components of income tax expense (income) are as follows:

Income tax expense (benefit) recognized in profit or loss

	For the year ended December 31,	
	2019	2018
Current income tax expense (income):		
Current income tax expense	$87,055	$208,478
Adjustments in respect of current income tax of prior periods	(17,745)	2,383
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	2,513	1,838
Total income tax expense (income)	$71,823	$212,699

B. A reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	For the year ended December 31,	
	2019	2018
Accounting profit (loss) before tax from continuing operations	$547,315	$753,855
Tax payable at the enacted tax rates	$109,463	$150,771
Tax effect of income tax-exempted	(33)	(463)
Tax effect of expenses not deductible for tax purposes	42	53
Tax effect of deferred tax assets/liabilities	835	39,255
Surtax on undistributed earnings	19,815	27,169
Adjustments in respect of current income tax of prior periods	(17,745)	2,383
Other adjustments according to the Tax Law	(40,554)	(6,469)
Total income tax recognized in profit or loss	$71,823	$212,699

C.Deferred tax assets (liabilities) relate to the following.

For the year ended December 31, 2019

	Beginning balance as of January 1, 2019	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Ending balance as of December 31, 2019
Temporary differences				
Unrealiized loss on inventory valuation	$2,491	$(500)	$-	$1,991
Unrealized exchange loss (gain)	(769)	2,727	-	1,958
Share of profits or loss of subsidiaries, associates and joint ventures accounted for under equity method	(3,883)	(4,740)	-	(8,623)
Deferred tax income/ (expense)		$(2,513)	$-	
Net deferred tax assets/(liabilities)	$(2,161)			$(4,674)
Reflected in balance sheet as follows:				
Deferred tax assets	$2,491			$3,949
Deferred tax liabilities	$4,652			$8,623

For the year ended December 31, 2018

	Beginning balance as of January 1, 2018	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	Ending balance as of December 31, 2018
Temporary differences				
Unrealiized loss on inventory valuation	$156	$2,335	$-	$2,491
Unrealized exchange loss (gain)	(156)	(613)	-	(769)
Share of profits or loss of subsidiaries, associates and joint ventures accounted for under equity method	(323)	(3,560)	-	(3,883)
Deferred tax income/ (expense)		$(1,838)	$-	
Net deferred tax assets/(liabilities)	$(323)			$(2,161)
Reflected in balance sheet as follows:				
Deferred tax assets	$156			$2,491
Deferred tax liabilities	$479			$4,652

D.Unrecognized deferred tax assets

As of December 31, 2019 and 2018, deferred tax assets that have not been recognized as they may not be used to offset future taxable income amounted to NT$63,596 thousand and NT$62,761 thousand, respectively.

E.The assessment of income tax returns

As of December 31, 2019, the assessment of the income tax returns of the Company have been approved up to the year of 2016.

(23)Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to the common shareholders of the parent entity by the weighted average number of common shares outstanding during the year.

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

A.Basic earnings per share

	For the year ended December 31,	
	2019	2018
Net income available to common shareholders of the parent	$475,492	$541,156
Weighted average number of common shares outstanding (in thousand shares)	62,438	60,000
Basic earnings per share (in NT$)	$7.62	$9.02

B.Diluted earnings per share

	For the year ended December 31,	
	2019	2018
Net income available to common shareholders of the parent	$475,492	$541,156
Net income available to common shareholders of the parent after dilution	$475,492	$541,156
Weighted average number of common shares outstanding (in thousand shares)	62,438	60,000
Effect of dilution:		
Employee bonus (compensation) - stock (in thousand shares)	470	599
Weighted average number of common shares outstanding after dilution (in thousand shares)	62,908	60,599
Diluted earnings per share (in NT$)	$7.56	$8.93

No other transactions that would significantly change the outstanding common shares or potential common shares incurred during the period subsequent to reporting date and up to the approval date of financial statements.

7.RELATED PARTY TRANSACTIONS

(1)Deal with related parties as of the end of the reporting period

Related parties and Relationship

Related parties	Relationship
Pegatron Corporation	Ultimate parent company
Kinsus Interconnect Technology Corporation	Parent company
Pegavision Japan Inc.	Subsidiary
Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary
Gemvision Technology (Zhejiang) Limited	Subsidiary
Pegatron Czech S.R.O.	Other related party

(2)Significant transactions with related parties

A.Operating revenue

	For the year ended December 31,	
	2019	2018
Pegavision Japan Inc.	$1,353,073	$423,423
Parent company	73	-
Subsidiaries	178,781	281,593
Total	$1,531,927	$705,016

Selling prices is set by the fixed price for sale to other customers and taking into account the cost of its after-sales services plus reasonable profit. Collecion terms for general customers were 90 days after monthly closing while 90 days and within 180 days after monthly closing for parent company and subsidiaries.

B.Lease-related parties

a.Right-of-use assets

		As of December 31,	
Related parties	Nature	2019	2018 (Note)
Pegatron Corporation	Buildings	$59,555	

b.Lease liabilities

	As of December 31,	
Related parties	2019	2018(Note)
Pegatron Corporation	$65,406	

c.Lease payments (Rental expense)

		For the year ended December 31,	
Related parties	Nature	2019	2018
Pegatron Corporation	Buildings	$8,441	$104,094
Pegatron Corporation	Other equipment	$983	$1,029

d.Interest expenses

	For the year ended December 31,	
Related parties	2019	2018(Note)
Pegatron Corporation	$1,401	

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C.Operating expense

		For the year ended December 31,	
Related parties	Nature	2019	2018
Pegatron Corporation	Provide service	$399	$344
Pegatron Corporation	Pay utilities	$69,503	$88,464
Pegavision Japan Inc.	Provide service	$-	$11,863
Pegatron Czech S.R.O.	Provide service	$180	$-

D.Accounts receivable - related parties

	As of December 31,	
	2019	2018
Pegavision Contact Lenses (Shanghai) Corporation	$124,211	$201,315
Pegavision Japan Inc.	146,953	105,879
Gemvision Technology (Zhejiang) Limited	51,305	-
Kinsus Interconnect Technology Corporation	5	-
Less: loss allowance	-	-
Net	$322,474	$307,194

E.Refundable deposits

	As of December 31,	
	2019	2018
Pegatron Corporation	$10,000	$10,000

F.Other payables

	As of December 31,	
	2019	2018
Pegatron Corporation	$16,660	$16,513
Subsidiaries	-	501
Other related party	52	-
Total	$16,712	$17,014

G.Other current liabilities/Contract liabilities

	As of December 31,	
	2019	2018
Pegavision Japan Inc.	$-	$127,738

H.Key management personnel compensation

	For the year ended December 31,	
	2019	2018
Short-term employee benefits and post-employment benefits	$17,690	$11,364

8.PLEDGED ASSETS

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

	Carrying amount as of December 31,		
Items	2019	2018	Secured liabilities
Property, plant and equipment - machinery and equipment (carrying amount)	$1,317,565	$-	Secured borrowings
Property, plant and equipment - other equipment (carrying amount)	65,473	-	Secured borrowings
Refundable deposits	2,000	2,000	Security deposit to custom authority
Total	$1,385,038	$2,000	

9.SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2019, the Company's outstanding contracts relating to significant construction in progress and purchased property, plant and equipment were as follows:

Nature of Contract	Contract Amount	Amount Paid	Amount unpaid
Buildings	$1,379,048	$-	$1,379,048

10.SIGNIFICANT DISASTER LOSS

None.

11.SIGNIFICANT SUBSEQUENT EVENT

None.

12.OTHERS

(1)Categories of financial instruments

Financial assets

	As of December 31,	
	2019	2018
Financial assets at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	$316,120	$-
Financial assets measured at amortized cost	1,007,510	870,242
Total	$1,323,630	$870,242

Financial liabilities

	As of December 31,	
	2019	2018
Financial liabilities measured at amortized cost:		
Short-term borrowings	$128,914	$159,501
Payables	725,809	945,064
Long-term borrowings (including current portion with maturity less than 1 year)	-	600,000

Lease liabilities	156,893	(Note)
Total	$1,011,616	$1,704,565

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(2)Financial risk management objectives and policies

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

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

(3)Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market prices comprises currency risk, interest rate risk and other price risk (e.g. equity instruments).

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

Foreign currency risk

The Company's exposure to foreign currency risk relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the Company's net investments in foreign subsidiaries.

The Company has certain foreign currency receivables to be denominated in the same foreign currency as certain foreign currency payables, therefore natural hedge is achieved. Therefore, hedge accounting is not adopted.

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

When NTD appreciates/depreciates against USD by 1%, the net income (loss) for the years ended 31 December 2019 and 2018 would decrease/increase by NT$604 thousand and NT$2,164 thousand, respectively.

When NTD appreciates/depreciates against CNY by 1%, the net income (loss) for the years ended 31 December 2019 and 2018 would decrease/increase by NT$2,785 thousand and NT$2,743 thousand, respectively.

Interest rate risk

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

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as of the end of the reporting period and presumed to be held for one accounting year, including investments and bank borrowing with variable interest rates. If interest rate increases/decreases by 1%, the net income (loss) for the years ended December 31, 2019 and 2018 would increase/decrease by NT$2,219 thousand and decrease/increase by NT$3,479 thousand, respectively.

Equity price risk

As of December 31, 2019 and 2018, the Company does not hold equity securities at fair value; therefore the Company is not subject to equity price risk.

(4)Credit risk management

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

Credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to credit risk management. Credit risk of all customers are assessed based on a comprehensive review of the customers' financial status, credit ratings from credit institutions, past transactions, current economic conditions and the Company's internal credit ratings. The Company also employs some credit enhancement instruments (e.g. prepayment or insurance) to reduce certain customers' credit risk.

As of December 31, 2019 and 2018, receivables from the top ten customers were accounted for 89.27% and 65.74% of the Company's total accounts receivable, respectively. The concentration of credit risk is relatively not significant for the remaining receivables.

Credit risk from balances with banks, fixed-income securities and other financial instruments is managed by the Company's finance division in accordance with the Company's policy. The counterparties that the Company transacts with are determined by internal control procedures. They are banks with fine credit ratings and financial institutions, corporate and government agencies with investment-grade credit ratings. Thus, there is no significant default risk. Consequently, there is no significant credit risk for these counter parties.

The Company adopted IFRS 9 to assess the expected credit losses. Except for the loss allowance of trade receivables is measured at lifetime expected credit losses, the remaining debt instrument investments which are not measured at fair value through profit or loss, low credit risk for these investments is a prerequisite upon acquisition and by using their credit risk as a basis for the distinction of categories.

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

(5)Liquidity risk management

The Company maintains financial flexibility through the use of cash and cash equivalents, highly-liquid marketable securities, bank loans, etc. The table below summarizes the maturity profile of the Company's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted interest payment relating to borrowings with variable interest rates is extrapolated based on the estimated yield curve as of the end of the reporting period.

Non-derivative financial instruments

	Less than 1 year	2 to 3 years	3 to 4 years	4 to 5 years	>5 years	Total
As of December 31, 2019						
Borrowings	$129,508	$-	$-	$-	$-	$129,508
Payables	725,809	-	-	-	-	725,809
Lease Liabilities	111,026	29,290	14,166	3,277	794	158,553
As of December 31, 2018						
Borrowings	$279,929	$206,407	$128,544	$102,143	$62,937	$779,960
Payables	945,064	-	-	-	-	945,064

(6)Movement schedule of liabilities arising from financing activities

Movement schedule of liabilities for the year ended December 31, 2019:

	Short-term borrowings	Long-term borrowings	Refundable deposits	Lease liabilities	Total liabilities from financing activities
As of January 1, 2019	$159,501	$600,000	$2,059	$293,055	$1,054,615
Cash flows	(30,587)	(600,000)	(1,297)	(128,670)	(760,554)
Non-cash changes					
Lease modification				(10,047)	(10,047)
Interest of lease liabilities				2,555	2,555
As of December 31, 2019	$128,914	$-	$762	$156,893	$286,569

Movement schedule of liabilities for the year ended December 31, 2018:

	Short-term borrowings	Long-term borrowings	Refundable deposits	Lease liabilities (Note)	Total liabilities from financing activities
As of January 1, 2018	$96,839	$101,000	$582		$198,421
Cash flows	62,662	499,000	1,477		563,139
As of December 31, 2018	$159,501	$600,000	$2,059		$761,560

Note: The Company adopted IFRS 16 since January 1, 2019. The Company elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(7)Fair values of financial instruments

A.The evaluation methods and assumptions applied in determining the fair value

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between willing market participants (not under coercion or liquidation). The following methods and assumptions are used by the Company in estimating the fair values of financial assets and liabilities:

a.The carrying amount of cash and cash equivalents, receivables, payables and other current liabilities approximate their fair value due to their short maturities.

b.For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and bonds).

c.Fair value of equity instruments without market quotations, bank borrowing and other non-current liabilities are determined based on the counterparty prices or valuation method (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

B.Fair value of financial instruments measured at amortized cost

The carrying amount of the Company's financial assets and liabilities measure at amortized cost approximates their fair value.

C.Fair value measurement hierarchy for financial instruments

Please refer to Note 12(8) for fair value measurement hierarchy for financial instruments of the Company.

(8)Fair value measurement hierarchy

A.Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

B.Fair value measurement hierarchy of the Company’s assets and liabilities

The Company does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Company’s assets and liabilities measured at fair value on a recurring basis is as follows.

As of December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
Money market fund	$316,120	$-	$-	$316,120
Financial liabilities:				
None				

As of December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets:				
None				
Financial liabilities:				
None				

Transfers between Level 1 and Level 2 during the period

For the year ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurement.

(9)Significant financial assets and liabilities denominated in foreign currencies

Information regarding the significant financial assets and liabilities denominated in foreign currencies was listed below. (In Thousands)

	As of December 31,					
	2019			2018		
	Foreign Currencies	Exchange Rate	NTD	Foreign Currencies	Exchange Rate	NTD
Financial assets						
Monetary items:						
USD	$6,346	29.98	$190,261	$10,639	30.72	$326,766
CNY	$64,819	4.298	$278,561	$61,709	4.475	$276,166
Financial liabilities						
Monetary items:						
USD	$4,331	29.98	$129,846	$3,577	30.84	$110,318
CNY	$19	4.298	$82	$415	4.475	$1,859
Foreign currency resulting in exchange gain or loss						
USD			$2,392			$18,438
CNY			$(9,784)			$(1,624)
Other			$69			$1,638

(10)Capital management

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

13.ADDITIONAL DISCLOSURES

(1)Information on significant transactions

A.Financing provided to others: None.

B.Endorsement/Guarantee provided to others: None.

C.Marketable securities held as of December 31, 2019 (excluding investments in subsidiaries, associates and joint ventures): Please refer to attachment 1.

D.Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 2.

E.Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 3.

F.Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

G.Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 4.

H.Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2019: Please refer to attachment 5.

I.Derivative instrument transactions: None.

(2)Information on investees

A.Investees over whom the Company exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 6.

B.Investees over which the Company exercises control shall be disclosed of information under Note 13(1):

a.Financing provided to others: None.

b.Endorsement/Guarantee provided to others: None.

c.Marketable securities held as of December 31, 2019 (excluding investments in subsidiaries, associates and joint ventures): None.

d.Individual securities acquired or disposed of with accumulated amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

e.Acquisition of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

f.Disposal of individual real estate with amount of at least NT$300 million or 20 percent of the paid-in capital for the year ended December 31, 2019: None.

g.Related party transactions with purchase or sales amount of at least NT$100 million or 20 percent of the paid-in capital for the year ended December 31, 2019: Please refer to attachment 7.

h.Receivables from related parties of at least NT$100 million or 20 percent of the paid-in capital as of December 31, 2019: None.

i.Derivative instrument transactions: None.

(3)Information on investments in Mainland China:

A.Name of investee in China, main business, paid-in capital, method of investment, investment flows, percentage of ownership, investment gain or loss, carrying amount at the end of reporting period, inward remittance of earning or loss and the upper limit on investment in China:

(In Thousands of New Taiwan Dollars)

Name of Investee in China	Main Business	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Profit/ Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019	Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment in China by Investment Commissio, MOEA
					Outflow	Inflow									
Pegavision Contact Lenses (Shanghai) Corporation	Selling medical equipment	$112,559 (Note 4)	(Note 1)	$65,062	$47,497	$-	$112,559	$(5,231) (Note 3 and 6)	100%	$(5,231) (Note 3 and 6)	$99,291 (Note 3 and 6)	$-	$112,559	$112,559	$2,432,223
Gemvision Technology (Zhejiang) Limited	Selling medical equipment	$43,886 (Note 3 and 5)	(Note 2)	$-	$-	$-	$-	$(5,261) (Note 3 and 6)	100%	$(5,261) (Note 3, 6 and 7)	$37,935 (Note 3, 6 and 7)	$-	$-	$-	

Note 1: Investment in Mainland China through companies in the third area.

Note 2: 100% Shares of Gemvision Technology owned and indirectly invested by Pegavision Contact Lenses (Shanghai) Corporation.

Note 3: Amounts in foreign currencies are translated into New Taiwan dollars using the exchange rates on the balance sheet date.

Note 4: The paid-in capital is USD3,600 thousand, equivalent to NT$112,559 thousand.

Note 5: The paid-in capital is CNY10,000 thousand.

Note 6: Gain/loss on investment is recognized based on the audited financial statements of the parent company’s auditors in Taiwan.

Note 7: Pegavision Contact Lenses (Shanghai) Corporation recognized the profit/loss and carrying amount of Gemvision Technology (Zhejiang) Limited..

B.Significant transactions with investees in China.

a.Purchase and balances of related accounts payable as of December 31, 2019: None.

b.Sales and the balance of related accounts receivable and their weightings as of December 31 2019:

	Operating revenue		Accounts receivable	
	Amount	% to Net Sales	Amount	% to Account Balance
Pegavision Contact Lenses (Shanghai) Corporation	$127,282	4.11%	$124,211	29.90%
Gemvision Technology (Zhejiang) Limited	51,499	1.66%	51,305	12.35%

Selling prices is set by the fixed price for sale to other customers and taking into account the cost of its after-sales services plus reasonable profit. Collection terms for general customers were 90 days after monthly closing while within 180 days after monthly closing for subsidiaries.

c.The profit and loss produced by transaction of property: None.

d.Ending balance of endorsements/guarantees or collateral provided and the purposes: None.

e.Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.

f.Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered: None.

14.SEGMENT INFORMATION

The Company has provided the operating segment disclosure in the consolidated financial statements.

Pegavision Corporation

Marketable Securities held as of December 31, 2019 (excluding investments in subsidiaries, associates and joint ventures)

Attachment 1

(In Thousands of New Taiwan Dollars)

Name of Held Company	Type and Name of Marketable Securities	Relationship with the issuer	Financial Statement Account	Ending Balance				
				Shares/Units	Carrying Amount	Shareholding (%)	Fair Value	Note
Pegavision Corporation	Money Market Funds							
	Yuanta Wan Tai Money Market Fund	-	Financial assets at fair value through profit or loss	11,778,166	$179,017	-%	$179,058	
	Yuanta De Li Money Market Fund	-	Financial assets at fair value through profit or loss	8,372,796	137,034	-%	137,062	
	Add: Valuation Adjustment				69			
	Total				$316,120		316,120	

Pegavision Corporation

Individual Securities Acquired or Disposed of with accumulated amount of At Least NT$300 Million or 20% of The Paid-In Capital

For the Year Ended December 31, 2019

Attachment 2

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Carrying Value	Gain/Loss on Disposal	Shares/Units	Amount
Pegavision Corporation	Money Market Funds:													
	Yuanta Wan Tai Money Market Fund	Financial assets at fair value through profit or loss	-	-	-	$-	28,565,798	$434,000	16,787,632	$255,046	$254,983	$63	11,778,166	$179,017

Pegavision Corporation

Acquisition of Individual Real Estate with Amount of at Least NT$ 300 million or 20% of the Paid-in Capital

For the Year Ended December 31, 2019

Attachment 3

(In Thousands of New Taiwan Dollars)

Acquiring Company	Name of Property	Transaction Date	Transaction Amount	Payment Status	Counter-party	Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose and Use of Acquisition	Other Terms
							Owner	Relationship with the	Transfer Date	Amount			
Pegavision Corporation	Land	2018.06.26	$1,311,000	By contract	Inventec Corporation	None	None	None	None	None	The transaction amount refer to professional appraisal institutions.	Expand capacity to satisfy the growth of business sales.	None
	Building	2018.06.26	69,000										
		Total	$1,380,000										

Pegavision Corporation

Related Party Transactions with Purchase or Sales Amount of At least NT$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2019

Attachment 4

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/ Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/ Collection Term	Unit Price	Payment/ Collection Term	Ending Balance	% to Total	
Pegavision Corporation	Pegavision Japan Inc.	Subsidiary	Sales	$1,353,073	43.70%	90 days after monthly closing	Similar to those to third party customers	T/T to 90 days after monthly closing	Accounts receivable $146,953	35.37%	
Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary	Sales	$127,282	4.11%	Within 180 days after monthly closing	Similar to those to third party customers	T/T to 90 days after monthly closing	Accounts receivable $124,211	29.90%	

Pegavision Corporation

Receivables from Related Parties of at Least NT$ 100 Million or 20% of the Paid-in Capital

As of December 31, 2019

Attachment 5

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Ratio	Overdue		Amount Received in Subsequent	Loss Allowance
					Amount	Action Taken		
Pegavision Corporation	Pegavision Japan Inc.	Subsidiary	$146,953	10.70	$-	-	$81,616	$-
Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary	$124,211	0.78	$-	-	$59,313	$-

Pegavision Corporation

Investees over Whom the Company Exercise Significant Influence or Control (Excluding Investees in Mainland China)

As of December 31, 2019

Attachment 6

(In Thousands of Foreign Currency / New Taiwan Dollars)

Investor	Investee	Business Location	Main Business and Product	Original Investment Amount		Balance as of December 31, 2019			Net Income (Loss) of the Investee	Share of Income (Loss) of the Investee	Note
				As of December 31, 2019	As of December 31, 2018	Shares	%	Carrying Value			
Pegavision Corporation	Pegavision Holdings Corporation	Samoa	Investing activities	USD3,630	USD2,130	3,630,000 shares	100.00%	$36,437	$(5,280)	$(5,280)	Subsidiary
Pegavision Corporation	Pagavision Japan Inc.	Japan	Selling medical equipment	JPY9,900	JPY9,900	198 shares	100.00%	$26,102	$16,418	$16,418	Subsidiary

Pegavision Corporation

Related Party Transactions with Purchase or Sales Amount of At least NT$100 Million or 20% of the Paid-in Capital

For the Year Ended December 31, 2019

Attachment 7

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment/ Collection Term	Unit Price	Payment/ Collection Term	Ending Balance	% to Total	
Pegavision Japan Inc.	Pegavision Corporation	Subsidiary	Purchase	$1,353,073	100.00%	90 days after monthly closing	No suppliers to be compared with	No suppliers to be compared with	Accounts payable $146,953	100.00%	
Pegavision Contact Lenses (Shanghai) Corporation	Pegavision Corporation	Subsidiary	Purchase	$127,282	100.00%	Within 180 days after monthly closing	No suppliers to be compared with	No suppliers to be compared with	Accounts payable $124,211	100.00%	
Gemvision Technology (Zhejiang) Limited	Pegavision Contact Lenses (Shanghai) Corporation	Subsidiary	Purchase	$118,586	67.55%	Within 180 days after monthly closing	Similar to those to third party suppliers	Similar to those to third party suppliers	Accounts payable $66,761	56.55%	

Pegavision Corporation

1. Statement of Cash and Cash Equivalents

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Cash and petty cash:		$2,191	1.Cash and Cash equivalents were not pledged.
			2.Exchange Rate
			USD 1=NTD 29.9800
			CNY 1=NTD 4.2975
			JPY 1=NTD 0.2760
Checkings and savings:			GBP 1=NTD 39.36
Shanghai Commercial & Savings Bank－Zhongli Branch	Demand deposits	42,239	
Shanghai Commercial & Savings Bank－Zhongli Branch	Check deposit	2,668	
Shanghai Commercial & Savings Bank－Zhongli Branch	Foreign currency deposit	20,522	USD 186,CNY 264,JPY 50,000
Mega International Commercial Bank－Lanya Branch	Demand deposits	44,370	
Mega International Commercial Bank－Lanya Branch	Foreign currency deposit	42,118	USD 589,CNY 28,JPY 85,551,GBP 18
Land Bank Of Taiwan －Chengtung Branch	Demand deposits	20	
Taishin International Bank－Jianpei Branch	Demand deposits	2,115	
Bank SinoPac－Taipei Branch	Demand deposits	2,502	
Taipeifubon Commercial Bank－Anhe Branch	Demand deposits	24,257	
Taipeifubon Commercial Bank－Anhe Branch	Foreign currency deposit	133	CNY 30
Chang Hwa Commercial Bank－Beitou Branch	Demand deposits	29,427	
Chang Hwa Commercial Bank－Beitou Branch	Foreign currency deposit	14,181	USD 6,CNY 43,JPY 50,000
Subtotal		224,552	
Time deposits:			
Mega International Commercial Bank－Lanya Branch	Fixed-term deposits	15,000	
Mega International Commercial Bank－Lanya Branch	Fixed-term deposits	12,892	CNY 3,000
Bank SinoPac－Taipei Branch	Fixed-term deposits	9,000	
Taipeifubon Commercial Bank－Anhe Branch	Fixed-term deposits	20,198	CNY4,700
Chang Hwa Commercial Bank－Beitou Branch	Fixed-term deposits	250,000	
Chang Hwa Commercial Bank－Beitou Branch	Fixed-term deposits	55,868	CNY 13,000
Subtotal		362,958	
Total		$589,701	

Pegavision Corporation

2. Statement of Financial assets at fair value through profit or loss

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

	Shares/Units	Par Value	Amount	Interest Rate	Acquisition Cost	Market Value Unit Price	Market Value Amount	Note
Money Market Funds：								
Yuanta Wan Tai Money Market Fund	11,778,166	-	$179,017	-	$179,017	$15.203	$179,058	Note
Yuanta De Li Money Market Fund	8,372,796	-	137,034	-	137,034	16.37	137,062	Note
Subtotal			$316,051		316,051		$316,120	
Add: Valuation Adjustment					69			
Total					$316,120			

Note: Financial assets at fair value through profit or loss were not pledged.

Pegavision Corporation

3. Statetment of Accounts Receivable, net

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Client Name	Amount	Note
Client A	$23,488	1.The amount of individual client included
Client B	11,213	in others does not exceed 5% of the account balance.
Client C	10,574	2.Non related parties.
Client D	9,640	
Others	39,941	
Subtotal	94,856	
Less: loss allowance	(1,859)	
Net	$92,997	

Pegavision Corporation

4. Statement of Accounts Receivable - Related Parties, net

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Related Parties	Amount	Note
Pegavision Contact Lenses (Shanghai) Corporation	$124,211	The Receivable from Related Parties incurred from sale of goods.
Pegavision Japan Inc.	146,953	
Gemvision Technology (Zhejiang) Limited	51,305	
Kinsus Interconnect Technology Corp.	5	
Less: loss allowance	-	
Net	$322,474	

Pegavision Corporation

5. Statement of Other Receivables

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

	Amount	Note
Interest receivables	$326	
Other receivables	2,012	
Total	$2,338	

Pegavision Corporation

6. Statement of Inventories, net

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount		Note
	Cost	Net Realizable Value	
Merchandises	$1,725	$1,725	1.Inventories are valued at lower of cost or net realizable value item by item.
Raw materials	41,771	41,771	
Supplies	2,479	2,479	
Work in progress	341,932	341,932	2.The insurance coverage for inventories was NT$759,850 thousand as of December 31, 2019.
Finished goods	217,887	347,882	
Subtotal	605,794	$735,789	
Less: allowance for inventory valuation losses	(102,997)		3.Inventories were not pledged.
Net	$502,797		

Pegavision Corporation

7. Statement of Prepayments

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Office supplies	$8,882	
Prepaid rents	3,067	
Other prepayments	6,933	
Total	$18,882	

Pegavision Corporation

8. Statement of Other Current Assets

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Temporary payments	$6,339	
Payment on behalf of others	11	
Input tax	2,659	
Overpaid sales tax	300	
Total	$9,309	

Pegavision Corporation

9. Statement of Changes in Investment Accounted for Under Equity Method

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

	As of January 1, 2019		Additions		Decrease		As of December 31, 2019			Fair Value/Net assets value		Collateral	Note
Investee companies	Shares	Amount	Shares	Amount	Shares	Amount	Shares	%	Amount	Unit price (NTD)	Total amount		
Pegavision Holdings Corporation	2,130,000	$61,644	1,500,000	$38,176 (Note1)	-	$-	3,630,000	100.00%	$99,820	$27.5	$99,820	None	
Unrealized profit		(107,544)		44,161		-			(63,383)		-		
Subtotal		(45,900) (Note 3)		82,337		-			36,437		99,820		
Pegavision Japan Inc.	198	10,200	-	15,902 (Note2)	-	-	198	100.00%	26,102	$131,828	26,102	None	
Total		$(35,700)		$98,239		$-			$62,539		$125,922		

Note1: Including acquisition of investment under equity method NT$47,497, investment loss recognized under equity method amounted to NT$5,280 thousand and foreign currency statements translation adjustments amounted to NT$(4,041) thousand.

Note2: Including investment gain recognized under equity method amounted to NT$16,418 thousand and foreign currency statements translation adjustments amounted to NT$(516) thousand.

Note3: Credit balance of investment under equity method.

Pegavision Corporation

10. Statement of Changes in Property, Plant and Equipment

For the year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	As of 1/1/2019	Addition	Disposals	Reclassification	As of 12/31/2019	Note
Cost:						1. Please refer to Note 8 for more details on property, plant and equipment under pledge.
Land	$-	$-	$-	$1,317,564	$1,317,564	
Buildings	-	-	-	69,345	69,345	
Machinery and equipment	2,671,754	-	(10,695)	114,479	2,775,538	2. The insurance coverage for property, plant and equipment was NT$3,476,479 thousand as of December 31, 2019.
Transportation equipment	1,576	-	-	-	1,576	
Computer Equipment	64,563	-	(3,550)	16,149	77,162	
Other Equipment	658,861	-	(10,618)	76,784	725,027	
Construction in progress and equipment awaiting inspection	135,723	-	-	(71,859)	63,864	
Prepaid equipment	450,820	1,125,024	-	(1,526,558)	49,286	
Total	3,983,297	1,125,024	(24,863)	(4,096)	5,079,362	
Accumulated Depreciation:						
Buildings	-	3,872	-	-	3,872	
Machinery and equipment	1,084,193	436,454	(10,695)	-	1,509,952	
Transportation equipment	1,006	160	-	-	1,166	
Computer Equipment	47,173	12,640	(3,550)	-	56,263	
Other Equipment	309,747	91,175	(10,618)	-	390,304	
Total	1,442,119	544,301	(24,863)	-	1,961,557	
Accumulated Impairment：						
Machinery and equipment	8,495	11,436	-	-	19,931	
Other Equipment	24,731	713	-	-	25,444	
Total	33,226	12,149	-	-	45,375	
Less： Prepayment for equipment	450,820				49,286	
Net carrying amount:	$2,057,132				$3,023,144	

Pegavision Corporation

11. Statement of Changes in Right-of-Use Assets

For the year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	As of 1/1/2019	Additions	Disposals	Reclassification	As of 12/31/2019	Note
Cost:						
Land	$-	$1,743	$-	$-	$1,743	
Buildings	273,932	31,496	(47,449)	-	257,979	
Machinery and equipment	17,793	-	-	-	17,793	
Transportation equipment	1,330	1,160	-	-	2,490	
Total	293,055	34,399	(47,449)	-	280,005	
Accumulated Depreciation:						
Land	-	581	-	-	581	
Buildings	-	124,009	(3,003)	-	121,006	
Machinery and equipment	-	6,888	-	-	6,888	
Transportation equipment	-	815	-	-	815	
Total	-	132,293	(3,003)	-	129,290	
Net carrying amount:	$293,055				$150,715	

Pegavision Corporation

12. Statement of Changes in Intangible Assets

For the year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	As of 1/1/2019	Additions	Disposals	As of 12/31/2019	Note
Computer software	$2,306	$4,096	$(1,866)	$4,536	

Pegavision Corporation

13. Statement of Deferred Tax Assets

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Deductible temporary differences from recognition of unrealized inventory valuation losses	$1,991	
Deductible temporary differences from recognition of unrealized foreign exchange losses	1,958	
Total	$3,949	

Pegavision Corporation

14.Statement of Other Non-Current Assets

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Prepayment for equipment	$49,286	
Refundable deposits		
Lease	23,995	
Other	40,497	
Subtotal	64,492	
Total	$113,778	

Pegavision Corporation

15. Statement of Short-term Borrowing

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Description	Type	As of December 31, 2019	Contract Period	Interest Rates	Collateral	Note
Chang Hwa Commercial Bank－Beitou Branch	Credit loans	$47,968	2019/12/18-2020/02/18	Note	None	
Chang Hwa Commercial Bank－Beitou Branch	Credit loans	38,974	2019/12/31-2020/03/31	Note	None	
Shanghai Commercial & Savings Bank－Zhongli Branch	Credit loans	41,972	2019/12/16-2020/02/27	Note	None	
Total		$128,914				

Note: As of December 31, 2019, the interest rate intervals for short-term loans were 2.48%~2.83%.

Pegavision Corporation

16. Statement of Contract Liabilities

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Name	Amount	Note
Receipts in advance		1.The amount of individual client included in others does not exceed 5% of the account balance.
Client E	$7,236	
Client F	1,948	
Client G	1,845	
Client H	1,208	
Others	4,363	
Subtotal	16,600	
Deferred revenue	14,848	
Total	$31,448	

Pegavision Corporation

17. Statement of Notes Payable

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Vendor Name	Amount	Note
Vendor A	$3,258	Non related parties.
Vendor B	472	
Total	$3,730	

Pegavision Corporation

18. Statement of Accounts Payable

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Vendor Name	Amount	Note
Vendor C	$19,437	1.The amount of individual vendor included in others does not exceed 5% of the account balance.
Vendor D	15,936	
Vendor E	13,809	
Vendor F	7,750	2. Non related parties.
Vendor G	7,079	
Vendor H	5,665	
Others	29,943	
Total	$99,619	

Pegavision Corporation

19. Statement of Other Payables

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Accrued Payroll	$241,993	
Accrued Professional Service Fees	16,712	Related party-Pegatron Corporation NT$16,712
Accrued Employees' Compensation	71,933	
Accrued Interest Payable	102	
Compensation Payable to Directors	6,255	
Payables to Equipment suppliers	65,608	
Others	219,857	The amount of individual vendor included in others does not exceed 5% of the account balance.
Total	$622,460	
Payables to Equipment suppliers		
Vendor I	$22,628	
Vendor J	12,861	
Vendor K	8,737	
Vendor L	5,376	
Others	16,006	The amount of individual vendor included in others does not exceed 5% of the account balance.
Total	$65,608	

Pegavision Corporation

20. Statement of Changes in Current Tax Liablities

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Balance as of January 1, 2019	$209,391	
Add: Income tax accrual for 2019	67,241	
Surtax rate on undistributed earnings accrual for 2018	19,814	
Less：Income tax payment for 2018	(155,728)	
Interim temporary tax payment	(91,287)	
Income tax payment for 2016	(10,331)	
Interest withheld	(306)	
Adjustments in respect of current income tax of prior periods	(17,745)	
Balance as of December 31, 2019	$21,049	

Pegavision Corporation

21. Statement of Lease Liabilities

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Period	Discount rate	As of 12/31/2019	Note
Land	2019/7/1~2020/12/31	1.30%	$1,166	
Buildings	2019/1/1~2025/12/31	1.20%~1.30%	143,069	
Machinery and equipment	2019/1/1~2022/7/19	1.30%	10,976	
Transportation equipment	2019/1/1~2022/9/30	1.30%	1,682	
Total			156,893	
Less: Current portion of lease liabilities			(109,912)	
Non-Current portion of lease liabilities			$46,981	

Pegavision Corporation

22. Statement of Other Current Liabilities

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Temporary receipts	$12,094	
Receipts Under Custody	6,510	
Refund liability	67,472	
Total	$86,076	

Pegavision Corporation

23.Statement of Deferred Tax Liabilities

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Taxable temporary differences from recognition of share of profit or loss of subsidiaries, associates and joint ventures under equity method	$8,623	

Pegavision Corporation

24.Guarantee Deposits Received

As of December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Lease guarantee deposit	$762	

Pegavision Corporation

25. Statement of Operating Revenue

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Quantity (set)	Amount	Note
Operating revenue			
Contact lens	319,476,058	$3,079,858	
Others		16,330	
Total operating revenue		$3,096,188	

Pegavision Corporation

26. Statement of Operating Costs

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Direct Materials		
Beginning balance	$65,078	
Add: Raw materials purchased	247,033	
Less: Ending balance	(41,771)	
Raw materials sold directly	(472)	
Raw materials scrapped	(3,274)	
Transferred to other accounts	(7,256)	
Direct materials used	259,338	
Supplies and parts		
Beginning balance	4,190	
Add: Supplies and parts purchased	19,943	
Transferred to other accounts	192	
Less: Ending balance	(2,479)	
Supplies and parts sold directly	(244)	
Supplies and parts used	21,602	
Direct labor	554,705	
Manufacturing overhead (Detailed list 27)	868,041	
Manufacturing cost	1,703,686	
Add: Work in process, beginning balance	367,713	
Less: Work in process, ending balance	(341,932)	
Work in process scrapped	(5,265)	
Transferred to other accounts	(44,412)	
Cost of finished goods	1,679,790	
Add: Finished goods, beginning balance	329,805	
Less: Finished goods, ending balance	(217,887)	
Finished goods scrapped	(4,816)	
Transferred to other accounts	(9,306)	
Cost of goods sold	1,777,586	
Merchandise, beginning balance	-	
Add: Merchandise purchased	1,981	
Less: Merchandise, ending balance	(1,725)	
Transferred to other accounts	(66)	
Cost of merchandise sold	190	
Cost of raw materials sold directly	716	
Loss from inventory valuation	30,072	
Loss from inventory scrapped	13,355	
Revenue from sale of scraps	(17,466)	
Total	$1,804,453	

Pegavision Corporation

27. Statement of Manufacting Overhead

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Rent expense	$7,818	
Repair and maintenance	40,158	
Utilities	105,271	
Depreciation	601,278	
Meal expense	20,125	
Consumable materials and tools	44,460	
Profesional service expense	1,769	
Miscellaneous purchase	4,468	
Others	42,694	
Total	$868,041	

Pegavision Corporation

28. Statement of Selling Expenses

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Salaries	$138,503	
Rent expense	18,992	
Travelling	7,634	
Shipping	10,084	
Postage expenses	3,203	
Repair and maintenance	1,368	
Advertisement expense	11,986	
Utilities	1,459	
Insurance expense	13,913	
Entertainment expense	1,284	
Depreciation	38,846	
Amortisation	45	
Meal expense	2,462	
Import and export fee	10,170	
Miscellaneous purchase	2,905	
Sample fee	4,972	
Professional service expense	1,735	
Royalty	43,025	
Others	22,641	
Total	$335,227	

Pegavision Corporation

29. Statement of Administrative Expenses

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Salaries	$75,858	
Rent expense	1,683	
Travelling	1,269	
Postage expenses	831	
Repair and maintenance	875	
Utilities	1,767	
Insurance expense	7,862	
Depreciation	18,984	
Amortization	1,674	
Meal expense	858	
Employee welfare	8,335	
Training expense	359	
Internet service expense	2,111	
Miscellaneous purchase	1,757	
Professional service expense	13,180	
Factory cleaning expense	5,078	
Others	14,262	
Total	$156,743	

Pegavision Corporation

30. Statement of Research and Development Expenses

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	Note
Salaries	$154,162	
Travelling	1,689	
Repair and maintenance	703	
Utilities	10,060	
Insurance expense	11,238	
Depreciation	17,486	
Amortization	147	
Meal expense	2,207	
Miscellaneous purchase	2,279	
Outsource testing	6,910	
Materials utilized for testing	46,319	
Professional service expense	10,212	
Others	16,390	
Total	$279,802	

Pegavision Corporation

31. Statement of Non-Operating Income and Expenses

For the Year ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount	Note
Other incomes			
	Interest income	$3,178	
	Rent income	450	
	Other income－others	7,311	
Total		$10,939	
Other gains and losses			
	Gains on disposal of property, plant and equipment	$16	
	Gains on disposal of investments	97	
	Gains on financial assets at fair value through profit or loss	69	
	Gains on lease modification	184	
	Impairment loss on non-financial assets	(12,149)	
	Foreign exchange losses, net	(7,323)	
	Other losses	(107)	
Total		$(19,213)	
Finance costs			
	Interest on borrowings from bank	$19,310	
	Interest on lease liabilities	2,555	
Total		$21,865	
Share of profit or loss of subsidiaries, associates and joint ventures			
	Investment income	$11,138	

Pegavision Corporation

32. Summary statement of employee benefits, depreciation and amortization by function

For the Years Ended December 31, 2019

(In Thousands of New Taiwan Dollars)

Function / Nature	2019			2018		
	Operating Costs	Operating expenses	Total	Operating Costs	Operating expenses	Total
Employee benefit expense						
Salaries	$487,330	$344,208	$831,538	$620,140	$344,528	$964,668
Labor and health insurance	48,773	28,787	77,560	49,353	22,336	71,689
Pension	15,734	13,554	29,288	18,323	11,244	29,567
Directors' remuneration	-	9,455	9,455	-	9,534	9,534
Other employee benefits expense	22,993	15,168	38,161	29,223	20,490	49,713
Depreciation	601,278	75,316	676,594	484,253	28,467	512,720
Amortisation	-	1,866	1,866	-	1,199	1,199

Note:

1. The headcounts of the Company amounted to 1,382 and 1,476, respectively, as of December 31, 2019 and 2018. Among the Company's directors, there were 8 who were not the employees.

2. Companies who have been listed on Taiwan Stock Exchange or Taiwan Over-The Counter Securities Exchange should disclose the following information:

(1) Average employee benefits of 2019 and 2018 are NT$711 thousands and NT$760 thousands respectively.

(2) Average salaries & wages of 2019 and 2018 are NT$605 thousands and NT$657 thousands respectively.

(3) Changes in average salaries are (8)%.

Pegavision Corporation
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