

Ticker: 6491

**PEGAVISION CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REVIEW REPORT OF INDEPENDENT AUDITORS
AS OF SEPTEMBER 30, 2020 AND 2019
AND FOR THE NINE-MONTH PERIODS THEN ENDED**

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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.

Consolidated Financial Statements
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REVIEW REPORT OF INDEPENDENT AUDITORS

To : the Board of Directors and Shareholders of
Pegavision Corporation

Introduction

We have reviewed the accompanying consolidated balance sheets of Pegavision Corporation (the “Company”) and its subsidiaries as of September 30, 2020 and 2019, the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, the related consolidated statements of changes in equity and cash flows for the nine-month periods then ended, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65, “Review of Financial Information Performed by the Independent Auditor of the Entity” of the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

(To be continued)

(Continued)

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as at September 30, 2020 and 2019, and their consolidated financial performance for the three-month and nine-month periods then ended and cash flows for the nine-month periods then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

/s/Cheng, Ching-Piao

/s/Kuo, Shao-Pin

Ernst & Young
Taiwan, R.O.C.
October 26th, 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 review 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 September 30, 2020, December 31, 2019 and September 30, 2019 (September 30, 2020 and 2019 are reviewed but unaudited)

(Amounts Expressed In Thousands of New Taiwan Dollars)

Assets			As of September 30, 2020		As of December 31, 2019		As of September 30, 2019	
Code	Accounts	Notes	Amount	%	Amount	%	Amount	%
	Current assets							
1100	Cash and cash equivalents	4, 6(1)	\$1,140,176	19	\$812,807	15	\$723,467	14
1110	Financial assets at fair value through profit or loss	4, 6(2)	260,538	5	316,120	6	-	-
1136	Financial assets measured at amortized cost	4, 6(3)	200,000	3	-	-	-	-
1170	Accounts receivable, net	4, 6(4), 6(16), 7	408,858	7	253,311	5	259,926	5
1200	Other receivables		14,579	-	2,338	-	2,194	-
1310	Inventories, net	4, 6(5)	531,275	9	549,992	10	681,635	13
1410	Prepayments		65,174	1	23,275	-	26,006	-
1470	Other current assets		32,908	1	29,340	1	36,463	1
11xx	Total current assets		<u>2,653,508</u>	<u>45</u>	<u>1,987,183</u>	<u>37</u>	<u>1,729,691</u>	<u>33</u>
	Non-current assets							
1600	Property, plant and equipment, net	4, 6(6), 8, 9	2,992,272	51	3,029,925	57	3,148,450	61
1755	Right-of-use assets, net	4, 6(17)	123,961	2	166,708	3	199,084	4
1780	Intangible assets, net	4, 6(7)	4,847	-	4,536	-	4,690	-
1840	Deferred tax assets	4, 6(21)	12,497	-	4,689	-	612	-
1900	Other non-current assets	6(6), 6(8), 7, 8	112,923	2	116,664	3	99,073	2
15xx	Total non-current assets		<u>3,246,500</u>	<u>55</u>	<u>3,322,522</u>	<u>63</u>	<u>3,451,909</u>	<u>67</u>
1xxx	Total Assets		<u>\$5,900,008</u>	<u>100</u>	<u>\$5,309,705</u>	<u>100</u>	<u>\$5,181,600</u>	<u>100</u>

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

Pegavision Corporation and Subsidiaries
Consolidated Balance Sheets (Continued)

As of September 30, 2020, December 31, 2019 and September 30, 2019 (September 30, 2020 and 2019 are reviewed but unaudited)

(Amounts Expressed In Thousands of New Taiwan Dollars)

Liabilities and Equity			As of September 30, 2020		As of December 31, 2019		As of September 30, 2019	
Code	Accounts	Notes	Amount	%	Amount	%	Amount	%
	Current liabilities							
2100	Short-term borrowings	6(9)	\$261,162	4	\$128,914	3	\$494,592	9
2130	Contract liabilities	6(15)	99,161	2	70,765	1	55,572	1
2150	Notes payable		527	-	3,730	-	1,536	-
2170	Accounts payable		137,680	2	99,619	2	88,240	2
2200	Other payables	6(10), 7	805,601	14	652,391	12	608,513	12
2230	Current tax liabilities	4, 6(21)	30,866	1	32,819	1	21,496	-
2280	Lease liabilities	4, 6(17)	49,871	1	113,937	2	134,945	3
2300	Other current liabilities	6(11), 6(12)	102,330	2	86,297	2	157,417	3
21xx	Total current liabilities		1,487,198	26	1,188,472	23	1,562,311	30
	Non-current liabilities							
2540	Non-current portion of long-term borrowings	6(12), 8	4,913	-	-	-	1,102,678	22
2570	Deferred tax liabilities	4, 6(21)	20,062	-	8,623	-	4,284	-
2580	Lease liabilities	4, 6(17)	74,946	1	58,143	1	68,624	1
2645	Guarantee deposits received		630	-	762	-	762	-
2670	Other non-current liabilities	4, 6(11), 6(12)	69	-	-	-	-	-
25xx	Total non-current liabilities		100,620	1	67,528	1	1,176,348	23
2xxx	Total liabilities		1,587,818	27	1,256,000	24	2,738,659	53
	Capital							
3100	Capital	6(14)						
3110	Common stock		700,000	12	700,000	13	600,000	12
3140	Capital collected in advance		-	-	-	-	228,000	4
3200	Capital surplus	6(14)	1,804,928	30	1,804,928	34	240,000	5
3300	Retained earnings	6(14)						
3310	Legal reserve		171,179	3	123,630	2	123,630	2
3320	Special reserve		9,795	-	5,237	-	5,237	-
3350	Unappropriated retained earnings		1,636,735	28	1,429,704	27	1,252,235	24
3400	Other equity interest		(10,447)	-	(9,794)	-	(6,161)	-
3xxx	Total equity		4,312,190	73	4,053,705	76	2,442,941	47
	Total liabilities and equity		\$5,900,008	100	\$5,309,705	100	\$5,181,600	100

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

Pegavision Corporation and Subsidiaries
Consolidated Statements of Comprehensive Incomes
For the three-month and nine-month periods ended September 30, 2020 and 2019 (Reviewed but unaudited)
(Amounts Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

Code	Items	Notes	For the three-month period ended Spetember 30,				For the nine-month period ended Spetember 30,			
			2020		2019		2020		2019	
			Amount	%	Amount	%	Amount	%	Amount	%
4000	Operating revenue	4, 6(15)	\$1,008,337	100	\$856,218	100	\$2,565,170	100	\$2,356,420	100
5000	Operating costs	6(4), 7	(484,583)	(48)	(478,480)	(56)	(1,304,629)	(51)	(1,323,724)	(56)
5900	Gross profit		523,754	52	377,738	44	1,260,541	49	1,032,696	44
6000	Operating expenses	7								
6100	Selling expenses		(138,293)	(14)	(112,323)	(13)	(345,771)	(13)	(303,171)	(13)
6200	Administrative expenses		(57,459)	(6)	(46,671)	(6)	(151,491)	(6)	(136,071)	(6)
6300	Research and development expenses		(94,800)	(9)	(71,891)	(8)	(253,721)	(10)	(197,905)	(8)
6450	Expected credit gains (losses)	6(16)	(2,298)	-	(392)	-	(2,469)	-	1,261	-
	Operating expenses total		(292,850)	(29)	(231,277)	(27)	(753,452)	(29)	(635,886)	(27)
6900	Operating income		230,904	23	146,461	17	507,089	20	396,810	17
7000	Non-operating income and expenses	6(19)								
7100	Interest income		1,197	-	531	-	3,433	-	2,389	-
7010	Other income		5,739	1	1,358	-	12,137	-	2,323	-
7020	Other gains or losses		(1,015)	-	(7,676)	(1)	(8,300)	-	(10,756)	-
7050	Finance costs		(831)	-	(6,166)	(1)	(3,047)	-	(19,429)	(1)
	Total non-operating incomes and expenses		5,090	1	(11,953)	(2)	4,223	-	(25,473)	(1)
7900	Income from continuing operations before income tax		235,994	24	134,508	15	511,312	20	371,337	16
7950	Income tax	4, 6(21)	(33,092)	(3)	(26,812)	(3)	(77,174)	(3)	(73,314)	(3)
8200	Net income		202,902	21	107,696	12	434,138	17	298,023	13
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		2,214	-	(2,271)	(1)	(653)	-	(924)	-
	Total other comprehensive income, net of tax		2,214	-	(2,271)	(1)	(653)	-	(924)	-
8500	Total comprehensive income		\$205,116	21	\$105,425	11	\$433,485	17	\$297,099	13
9750	Earnings per share-basic (in NTD)	4, 6(22)	\$2.90		\$1.79		\$6.20		\$4.97	
9850	Earnings per share-diluted (in NTD)	4, 6(22)	\$2.89		\$1.78		\$6.17		\$4.94	

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

Pegavision Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
For the nine-month periods ended September 30, 2020 and 2019 (Reviewed but unaudited)
(Amounts Expressed In Thousands of New Taiwan Dollars)

Code	Items	Equity Attributable to Shareholders of the Parent						Exchange differences arising on translation of foreign operations	Total Equity
		Capital	Capital collected in advance	Capital Surplus	Retained Earnings				
					Legal Reserve	Special Reserve	Unappropriated Earnings		
		3100	3140	3200	3310	3320	3350	3410	3XXX
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 the nine-month period ended September 30, 2019						298,023		298,023
D3	Other comprehensive income (loss), net of tax, for the nine-month period ended September 30, 2019							(924)	(924)
D5	Total comprehensive income (loss)	-	-	-	-	-	298,023	(924)	297,099
E1	Issurance of common stock for cash		228,000						228,000
Z1	Balance as of September 30, 2019	<u>\$600,000</u>	<u>\$228,000</u>	<u>\$240,000</u>	<u>\$123,630</u>	<u>\$5,237</u>	<u>\$1,252,235</u>	<u>\$(6,161)</u>	<u>\$2,442,941</u>
A1	Balance as of January 1, 2020	\$700,000	\$-	\$1,804,928	\$123,630	\$5,237	\$1,429,704	\$(9,794)	\$4,053,705
	Appropriation and distribution of 2019 earnings								
B1	Legal reserve appropriated				47,549		(47,549)		-
B3	Special reserve appropriated					4,558	(4,558)		-
B5	Cash dividends-common shares						(175,000)		(175,000)
D1	Net income for the nine-month period ended September 30, 2020						434,138		434,138
D3	Other comprehensive income (loss), net of tax, for the nine-month period ended September 30, 2020							(653)	(653)
D5	Total comprehensive income (loss)	-	-	-	-	-	434,138	(653)	433,485
Z1	Balance as of September 30, 2020	<u>\$700,000</u>	<u>\$-</u>	<u>\$1,804,928</u>	<u>\$171,179</u>	<u>\$9,795</u>	<u>\$1,636,735</u>	<u>\$(10,447)</u>	<u>\$4,312,190</u>

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

Pegavision Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the nine-month periods ended September 30, 2020 and 2019 (Reviewed but unaudited)
(Amounts Expressed in Thousands of New Taiwan Dollars)

Code	Items	For the nine-month periods ended September 30,		Code	Items	For the nine-month periods ended September 30,	
		2020	2019			2020	2019
AAAA	Cash flows from operating activities:			BBBB	Cash flows from investing activities:		
A10000	Income before income tax	\$511,312	\$371,337	B00040	Disposal (acquisition) of financial assets at amortised cost	(200,000)	75,281
A20000	Adjustments:			B02700	Acquisition of property, plant and equipment	(249,958)	(1,230,644)
A20010	Profit or loss not effecting cash flows:			B02800	Proceeds from disposal of property, plant and equipment	634	16
A20100	Depreciation (including right-of-use assets)	469,201	514,225	B03800	Decrease (increase) in refundable deposits	(3,780)	4,779
A20200	Amortization	2,111	1,212	B04500	Acquisition of intangible assets	(2,422)	(3,596)
A20300	Expected credit losses (gain)	2,469	(1,261)	BBBB	Net cash provided by (used in) investing activities	(455,526)	(1,154,164)
A20400	Net loss (gain) of financial assets (liabilities) at fair value through profit or loss	(716)	-				
A20900	Interest expense	3,047	19,429	CCCC	Cash flows from financing activities:		
A21200	Interest income	(3,433)	(2,389)	C00100	Increase in (repayment of) short-term borrowings	132,248	335,091
A22500	Loss (gain) on disposal of property, plant and equipment	(634)	1,547	C01600	Increase in long-term borrowings	5,000	1,100,000
A23700	Impairment loss on non-finacial assets	5,395	12,149	C01700	Repayments of long-term borrowings	-	(525,000)
A29900	Loss (gain) on lease modification	(21)	(183)	C03000	Increase (decrease) in guarantee deposits received	(132)	(1,297)
A29900	Loss (gain) on government grants	(11)	-	C04020	Payments of lease liabilities	(106,524)	(101,418)
A30000	Changes in operating assets and liabilities:			C04500	Cash dividends	(175,000)	(90,000)
A31115	Financial assets at fair value through profit or loss	56,298	-	C04600	Cash capital increase	-	228,000
A31150	Accounts receivable	(158,013)	(66,228)	CCCC	Net cash provided by (used in) financing activities	(144,408)	945,376
A31180	Other receivables	(12,065)	174	DDDD	Effect of exchange rate changes	(605)	(818)
A31200	Inventories	18,717	115,265	EEEE	Increase (decrease) in cash and cash equivalents	327,369	293,468
A31230	Prepayments	(41,899)	(8,696)	E00100	Cash and cash equivalents at beginning of period	812,807	429,999
A31240	Other current assets	(3,568)	8,211	E00200	Cash and cash equivalents at end of period	\$1,140,176	\$723,467
A32125	Contract liabilities	28,396	(76,251)				
A32130	Notes payable	(3,203)	357				
A32150	Accounts payable	38,061	(23,476)				
A32180	Other payables	74,417	(105,274)				
A32230	Other current liabilities	16,013	21,602				
A32000	Cash generated from operations	1,001,874	781,750				
A33100	Interest received	3,257	3,855				
A33300	Interest paid	(1,720)	(16,863)				
A33500	Income tax paid	(75,503)	(265,668)				
AAAA	Net cash provided by (used in) operating activities	927,908	503,074				

(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”) for the nine-month periods ended September 30, 2020 and 2019 were authorized for issue by the Board of Directors on October 26th, 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, 2020. Apart from the nature and impact of the new standard and amendment is described below, the remaining new standards and amendments had no material impact on the Group.

- (a) Covid-19-Related Rent Concessions (Amendment to IFRS 16)

The Group elected to early apply Covid-19-Related Rent Concessions (Amendment to IFRS 16) which is recognized by FSC for annual periods beginning on or after January 1, 2020, and in accordance with the requirements of the transition. For the rent concession

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

arising as a direct consequence of the covid-19 pandemic, the Group elected not to assess whether it is a lease modification but accounted it as a variable lease payment. Please refer to Note 6 for disclosure related to the lessee which required by the amendment.

(2) Standards or interpretations issued, revised or amended, by International Accounting Standards Board (“IASB”) which are not endorsed by FSC, and 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, 2023
c	Classification of Liabilities as Current or Non-current - Amendments to IAS 1	January 1, 2023
d	Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements	January 1, 2022
e	Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 1, 2021

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

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

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

(B)IFRS 17 “Insurance Contracts”

IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects (including recognition, measurement, presentation and disclosure requirements). The core of IFRS 17 is the General (building block) Model, under this model, on initial recognition, an entity shall measure a 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:

- I. Estimates of future cash flows;
- II. 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
- III. 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.

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

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

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

(D) Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements

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

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

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

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

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

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

IV. Annual Improvements to IFRS Standards 2018 - 2020

Amendment to IFRS 1

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

Amendment to IFRS 9 Financial Instruments

The amendment clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

Amendment to Illustrative Examples Accompanying IFRS 16 Leases

The amendment to Illustrative Example 13 accompanying IFRS 16 modifies the treatment of lease incentives relating to lessee's leasehold improvements.

Amendment to IAS 41

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

(E) Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The final phase amendments mainly relate to the effects of the interest rate benchmark reform on the companies' financial statements:

- I. A company will not have to derecognise or adjust the carrying amount of financial instruments for changes to contractual cash flows as required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- II. A company will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- III. A company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

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 nine-month periods ended September 30, 2020 and 2019 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and IAS 34 Interim Financial Reporting as endorsed and became effective 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

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

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.

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 Company 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:

Investor	Subsidiary	Main business	Percentage of Ownership (%) As at			Note
			Sep. 30, 2020	Dec 31, 2019	Sep. 30, 2019	
The Company	Pegavision Holdings Corporation	Investing activities	-%	100.00%	100.00%	Note 4
The Company	Pegavision Contact Lenses (Shanghai) Corporation	Selling medical equipment	100.00%	100.00%	100.00%	Note 1

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	Selling medical equipment	100.00%	100.00%	100.00%	None
The Company	Pegavision Japan Inc.	Selling medical equipment	100.00%	100.00%	100.00%	None
The Company	Aquamax Corporation	Selling medical equipment	100.00%	Not applicable	Not applicable	Note 2
Aquamax Corporation	Aquamax Vision Corporation	Selling medical equipment	100.00%	Not applicable	Not applicable	Note 3

Note 1: For the consideration of reorganization, the equity of Pegavision Contact Lenses (Shanghai) Corporation was transferred to the Company from Pegavision Holdings Corporation. The registration was completed at May 13, 2020.

Note 2: The board of directors decided to set up Aquamax Corporation which is 100% held by the Company at February 10, 2020. The registration was completed at June 15, 2020.

Note 3: The board of directors decided to set up Aquamax Vision Corporation which is 100% held by the Aquamax Corporation at February 10, 2020. The registration was completed at July 29, 2020.

Note 4: For the consideration of reorganization, the equity of Pegavision Holdings Corporation was struck off the register at September 2, 2020.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in New Taiwan Dollar, which is the 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.

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 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.

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 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 election 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 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.
- (d) For lease receivables arising from transactions within the scope of IFRS 16, 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

Classification between liabilities or equity

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.

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 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 weighted average 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.

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

Buildings	16.5 years
Machinery and equipment	2 ~ 6 years
Transportation equipment	2 ~ 6 years
Office equipment	2 ~ 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 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.

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.

For the rent concession arising as a direct consequence of the covid-19 pandemic, the Group elected not to assess whether it is a lease modification but accounted it as a variable lease payment. The Group applied the practical expedient to all rent concessions that meet the conditions for it.

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.

(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:

	<u>Cost of Computer Software</u>
Useful economic life	1 ~ 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:

Sale of goods

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) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item, it is

recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the statement of comprehensive income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grant.

(18) 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.

(19) 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.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of 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 tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- (A) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (B) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- (A) Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- (B) In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will 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 deferred tax 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 accordingly.

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

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS 12. The Group recognizes the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

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)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.

(2)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.

(3)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.

(4)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.

6. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Cash and petty cash	\$2,963	\$2,426	\$3,723
Checkings and savings	528,679	446,916	650,689
Time deposit	608,534	363,465	69,055
Total	<u>\$1,140,176</u>	<u>\$812,807</u>	<u>\$723,467</u>

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

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Mandatorily measured at fair value through profit or loss:			
Money market fund	\$260,300	\$316,051	\$-
Valuation adjustment	238	69	-
Total	<u>\$260,538</u>	<u>\$316,120</u>	<u>\$-</u>

Pegavision Corporation and Subsidiaries
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Current	\$260,538	\$316,120	\$-
Non-current	-	-	-
Total	\$260,538	\$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 at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Time deposits	\$200,000	\$-	\$-
Less: loss allowance	-	-	-
Total	\$200,000	\$-	\$-
Current	\$200,000	\$-	\$-
Non-current	\$-	\$-	\$-

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 at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Accounts receivable, gross	\$413,673	\$255,655	\$262,716
Less: loss allowance	(4,815)	(2,349)	(2,790)
Subtotal	408,858	253,306	259,926
Accounts receivable - related parties, gross	-	5	-
Less: loss allowance	-	-	-
Subtotal	-	5	-
Total accounts receivable, net	\$408,858	\$253,311	\$259,926

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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B. Accounts receivable were not pledged.

C. Accounts receivable are generally on T/T to 90 days terms. The total carrying amount is NT\$413,673 thousand, NT\$255,660 thousand and NT\$262,716 thousand as at September 30, 2020, December 31, 2019 and September 30, 2019, respectively. Please refer to Note 6 (16) for more details on loss allowance of accounts receivable for the nine-month periods ended September 30, 2020 and 2019. Please refer to Note 12 for more details on credit risk management.

(5) Inventory

A. Details of inventory:

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Merchandises	\$3,227	\$1,725	\$-
Raw materials	34,289	26,045	28,415
Supplies	2,349	1,515	2,208
Work in process	208,940	295,875	405,424
Finished goods	282,470	224,832	245,588
Total	<u>\$531,275</u>	<u>\$549,992</u>	<u>\$681,635</u>

B. For the three-month periods ended September 30, 2020 and 2019, the Group recognized NT\$484,583 thousand and NT\$478,480 thousand under the caption of costs of sale, respectively. For the nine-month periods ended September 30, 2020 and 2019, the Group recognized NT\$1,304,629 thousand and NT\$1,323,724 thousand under the caption of costs of sale, respectively. The following items were also included in cost

Item	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Loss (Gain) from inventory market decline	\$9,794	\$9,427	\$41,350	\$30,188
Loss from inventory write-off obsolescence	-	-	645	9,196
Total	<u>\$9,794</u>	<u>\$9,427</u>	<u>\$41,995</u>	<u>\$39,384</u>

Pegavision Corporation and Subsidiaries
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C.The inventories were not pledged.

(6)Property, plant and equipment

	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 at 1/1/2020	\$1,317,564	\$69,345	\$2,775,538	\$1,576	\$77,650	\$733,945	\$113,150	\$5,088,768
Addition	-	-	94	-	72	457	330,526	331,149
Disposals	-	-	(14,301)	(596)	(7,469)	(10,873)	-	(33,239)
Transfer	-	-	133,222	-	2,395	12,982	(151,021)	(2,422)
Effect of EX rate	-	-	-	-	(1)	(45)	-	(46)
As at 9/30/2020	\$1,317,564	\$69,345	\$2,894,553	\$980	\$72,647	\$736,466	\$292,655	\$5,384,210
As at 1/1/2019	\$-	\$-	\$2,671,754	\$1,576	\$64,956	\$662,532	\$586,543	\$3,987,361
Addition	-	-	-	-	-	7,677	1,090,439	1,098,116
Disposals	-	-	(10,694)	-	(3,550)	(8,189)	-	(22,433)
Transfer	1,317,564	69,345	100,769	-	8,476	73,935	(1,573,685)	(3,596)
Effect of EX rate	-	-	-	-	8	16	-	24
As at 9/30/2019	\$1,317,564	\$69,345	\$2,761,829	\$1,576	\$69,890	\$735,971	\$103,297	\$5,059,472
Depreciation and impairment:								
As at 1/1/2020	\$-	\$3,872	\$1,529,883	\$1,166	\$56,637	\$417,999	\$-	\$2,009,557
Depreciation	-	3,168	292,437	96	8,355	64,412	-	368,468
Impairment loss	-	-	5,073	-	-	322	-	5,395
Disposal	-	-	(14,301)	(596)	(7,469)	(10,873)	-	(33,239)
Transfer	-	-	-	-	-	-	-	-
Effect of EX rate	-	-	-	-	(1)	(7)	-	(8)
As at 9/30/2020	\$-	\$7,040	\$1,813,092	\$666	\$57,522	\$471,853	\$-	\$2,350,173

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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As at 1/1/2019	\$-	\$-	\$1,092,688	\$1,006	\$47,462	\$335,591	\$-	\$1,476,747
Depreciation	-	2,816	329,100	127	9,517	68,847	-	410,407
Impairment loss	-	-	11,436	-	-	713	-	12,149
Disposal	-	-	(10,694)	-	(3,550)	(6,626)	-	(20,870)
Transfer	-	-	-	-	-	-	-	-
Effect of EX rate	-	-	-	-	6	(24)	-	(18)
As at 9/30/2019	\$-	\$2,816	\$1,422,530	\$1,133	\$53,435	\$398,501	\$-	\$1,878,415

Net carrying amount:

As at 9/30/2020	\$1,317,564	\$62,305	\$1,081,461	\$314	\$15,125	\$264,613	\$292,655	\$3,034,037
As at 12/31/2019	\$1,317,564	\$65,473	\$1,245,655	\$410	\$21,013	\$315,946	\$113,150	\$3,079,211
As at 9/30/2019	\$1,317,564	\$66,529	\$1,339,299	\$443	\$16,455	\$337,470	\$103,297	\$3,181,057

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

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Property, plant and equipment	\$2,992,272	\$3,029,925	\$3,148,450
Prepayment for equipment	41,765	49,286	32,607
Total	\$3,034,037	\$3,079,211	\$3,181,057

C.For the three-month periods ended September 30, 2020 and 2019, NT\$5,395 thousand and NT\$0 impairment loss represented the write down of certain property, plant and equipment to the recoverable amount; for the nine-month periods ended September 30, 2020 and 2019, NT\$5,395 thousand and NT\$12,149 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.

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

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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(7)Intangible assets

	<u>Computer software</u>
<u>Cost:</u>	
As at January 1, 2020	\$18,087
Additions – acquired separately	-
Transfer	2,422
Derecognized upon retirement	-
As at September 30, 2020	<u>\$20,509</u>
As at January 1, 2019	\$13,991
Additions – acquired separately	-
Transfer	3,596
Derecognized upon retirement	-
As at September 30, 2019	<u>\$17,587</u>
<u>Amortization and Impairment:</u>	
As at January 1, 2020	\$13,551
Amortization	2,111
Derecognized upon retirement	-
As at September 30, 2020	<u>\$15,662</u>
As at January 1, 2019	\$11,685
Amortization	1,212
Derecognized upon retirement	-
As at September 30, 2019	<u>\$12,897</u>
<u>Carrying amount, net:</u>	
As at September 30, 2020	<u>\$4,847</u>
As at December 31, 2019	<u>\$4,536</u>
As at September 30, 2019	<u>\$4,690</u>

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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Amounts of amortization recognized for intangible assets are as follows:

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Manufacturing expense	\$20	\$-	\$20	\$-
Selling expense	11	11	33	33
Administrative expense	571	432	1,767	1,084
Research and development expense	127	40	291	95
Total	\$729	\$483	\$2,111	\$1,212

(8)Other non-current assets

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Refundable deposits	\$71,158	\$67,378	\$66,466
Prepayment for equipment	41,765	49,286	32,607
Total	\$112,923	\$116,664	\$99,073

(9)Short-term borrowings

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Unsecured bank loans	\$261,162	\$128,914	\$494,592
Interest Rate (%)	0.65%~0.83%	2.48%~2.83%	1.00%~3.08%

The Group's unused short-term lines of credits amounts to NT\$929,988 thousand, NT\$770,886 thousand and NT\$415,808 thousand, as at September 30, 2020, December 31, 2019 and September 30, 2019, respectively.

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Notes to Consolidated Financial Statements (Continued)
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(10) Other payable

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Accrued expenses	\$661,098	\$586,681	\$539,497
Accrued interest payable	126	102	1,580
Payable to equipment suppliers	144,377	65,608	67,436
Total	<u>\$805,601</u>	<u>\$652,391</u>	<u>\$608,513</u>

(11) Other current liabilities

A. Details of other current liabilities

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Other current liabilities	\$18,176	\$18,825	\$32,802
Refund liability	84,134	67,472	52,293
Current portion of long-term borrowings	-	-	72,322
Deferred government grants income	20	-	-
Total	<u>\$102,330</u>	<u>\$86,297</u>	<u>\$157,417</u>

B. The changes in the Group's balances of deferred government grants income for the nine-month periods ended September 30, 2020 are as follows:

	For the nine-month period ended Sep. 30 2020
Beginning balance	\$-
Received during the period	100
Released to the statement of comprehensive income	(11)
Ending Balance	<u>\$89</u>
Current	<u>\$20</u>
Non-current	<u>\$69</u>

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
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C.Please refer to Note 6(12) for more details on interest rate of deferred government grants income.

(12)Long-term borrowings

A.Details of long-term borrowings

Debtor	Type of Loan	Maturity	As at			Repayment
			30 Sep. 2020	31 Dec. 2019	30 Sep. 2019	
The Shanghai Commercial & Savings Bank - ZhongLi Branch	Credit loan	2018.03.31-2021.03.31	\$-	\$-	\$75,000	Notes 1
The Shanghai Commercial & Savings Bank - ZhongLi Branch	Secured loan	2019.01.08-2034.01.08	-	-	900,000	Notes 2
Chang Hwa Commercial Bank - Beitou Branch	Credit loan	2018.10.09-2023.10.09	-	-	100,000	Notes 3
Chang Hwa Commercial Bank - Beitou Branch	Credit loan	2019.08.05-2024.08.05	-	-	100,000	Notes 3
Chang Hwa Commercial Bank - Beitou Branch	Credit loan	2020.03.25-2025.03.15	4,913	-	-	Notes 4
Total			4,913	-	1,175,000	
Less: current portion			-	-	(72,322)	
Non-current portion			\$4,913	\$-	\$1,102,678	

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 2 years (8 terms). The rest is repayable in installments of equal amount for 52 terms. Reimbursement in advance in 2019.

Note 3: 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.

Note 4: A term is defined as every month starting from the initial draw-down date. Grace period is 3 years (36 terms). The rest is repayable in installments of equal amount for 24 terms.

B.As at September 30, 2020, December 31, 2019 and September 30, 2019, the interest rate intervals for long-term borrowings were 0.95%, 1.20%~1.35% and 1.20%~1.30%, respectively.

The Group obtained from the Ministry of Economy a low-interest government loan amounting NT\$5,000 thousands with a term of 5 years and annual interest rates of 0.50% and monthly interest payment on the 15th of each month. The loan was recorded under the caption of other liabilities-deferred government grants income. The Group shall recognize the government grant income when it is reasonably assured that the Group satisfy all the terms of the government grant agreement.

C.Please refer to Note 8 for more details regarding assets pledged for secured bank loans.

(13)Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended September 30, 2020 and 2019 were NT\$8,097 thousand and NT\$7,442 thousand, respectively. Expenses under the defined contribution plan for the nine-month periods ended September 30, 2020 and 2019 were NT\$23,090 thousand and NT\$23,018 thousand, respectively.

Pension for the three-month periods ended September 30, 2020 and 2019 were NT\$2 thousand and NT\$13 thousand, respectively. Pension for the nine-month periods ended September 30, 2020 and 2019 were NT\$13 thousand and NT\$39 thousand, respectively.

(14)Equity

A.Common stock

As at September 30, 2020, December 31, 2019 and September 30, 2019, the Company's authorized capital were NT\$800,000 thousand, and paid-in capital were NT\$700,000 thousand, NT\$700,000 thousand and NT\$600,000 thousand, each share at par value of NT\$10, divided into 70,000 thousand shares, 70,000 thousand shares and 60,000 thousand shares. Each share has one voting right and a right to receive dividends.

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The Company passed the proposal of cash capital increase, 10,000 thousand 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 thousand 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 at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Additional paid-in capital	\$1,804,928	\$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 Board 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.

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

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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 shareholders’ meetings held on May 27, 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	4,558	746		
Cash dividend (Note)	175,000	90,000	\$2.5	\$1.5
Total	<u>\$227,107</u>	<u>\$144,861</u>		

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

(15) Operating revenue

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Revenue from customer contracts				
Sales of goods	<u>\$1,008,337</u>	<u>\$856,218</u>	<u>\$2,565,170</u>	<u>\$2,356,420</u>

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Analysis of revenue from contracts with customers for the three-month and nine-month periods ended September 30, 2020 and 2019 are as follows:

A. Disaggregation of revenue

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
	Single department	Single department	Single department	Single department
Sales of goods	\$1,008,337	\$856,218	\$2,565,170	\$2,356,420
The timing for revenue recognition:				
At a point in time	\$1,008,337	\$856,218	\$2,565,170	\$2,356,420

B. Contract balances

a. Contract liabilities – current

	As of			
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019	1 Jan. 2019
Sales of goods	\$83,861	\$55,917	\$45,678	\$121,084
Customer loyalty programmes	15,300	14,848	9,894	10,739
Total	\$99,161	\$70,765	\$55,572	\$131,823

The significant changes in the Group's balances of contract liabilities for the nine-month periods ended September 30, 2020 are as follows:

	Sales of goods	Customer loyalty programmes
	The opening balance transferred to revenue	\$(55,841)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	83,785	15,300

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The significant changes in the Group's balances of contract liabilities for the nine-month periods ended September 30, 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)	45,678	9,894

(16) Expected credit gains (losses)

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Operating expenses – Expected credit gains (losses)				
Accounts receivable	\$(2,298)	\$(392)	\$(2,469)	\$1,261

A. The Group considers 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:

September 30, 2020

	Not past due	Past due				Total
		<=60 days	61-90 days	91-240 days	>=241 days	
Gross carrying amount	\$413,673	\$-	\$-	\$-	\$-	\$413,673
Loss rate	1.16%	0%	0%	0%	0%	
Lifetime expected credit losses	(4,815)	-	-	-	-	(4,815)
Carrying amount of accounts receivable	\$408,858	\$-	\$-	\$-	\$-	\$408,858

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December 31, 2019

	Not past due	Past due				Total
		<=60 days	61-90 days	91-240 days	>=241 days	
Gross carrying amount	\$225,699	\$29,961	\$-	\$-	\$-	\$255,660
Loss rate	0.91%	1%	0%	0%	0%	
Lifetime expected credit losses	(2,049)	(300)	-	-	-	(2,349)
Carrying amount of accounts receivable	\$223,650	\$29,661	\$-	\$-	\$-	\$253,311

September 30, 2019

	Not past due	Past due				Total
		<=60 days	61-90 days	91-240 days	>=241 days	
Gross carrying amount	\$238,437	\$24,279	\$-	\$-	\$-	\$262,716
Loss rate	1.07%	1%	0%	0%	0%	
Lifetime expected credit losses	(2,547)	(243)	-	-	-	(2,790)
Carrying amount of accounts receivable	\$235,890	\$24,036	\$-	\$-	\$-	\$259,926

B.The movement in the provision for impairment of accounts receivable for the nine-month periods ended September 30, 2020 and 2019 are as follows:

	<u>Accounts receivable</u>
As at January 1, 2020	\$2,349
Addition (reversal)	2,469
Effect of EX rate	(3)
As at September 30, 2020	<u>\$4,815</u>
As at January 1, 2019	\$4,064
Addition (reversal)	(1,261)
Effect of EX rate	(13)
As at September 30, 2019	<u>\$2,790</u>

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(17)Leases

A.Group as a lessee

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 and equipment	Transportation equipment	Total
<u>Cost:</u>					
As at 1/1/2020	\$1,743	\$276,415	\$17,793	\$2,490	\$298,441
Addition	-	62,408	-	-	62,408
Disposals	-	(161,880)	-	-	(161,880)
Transfer	-	-	-	-	-
Effect of EX rate	-	(86)	-	-	(86)
As at 9/30/2020	<u>\$1,743</u>	<u>\$176,857</u>	<u>\$17,793</u>	<u>\$2,490</u>	<u>\$198,883</u>
As at 1/1/2019	\$-	\$292,541	\$17,793	\$1,330	\$311,664
Addition	1,743	33,460	-	578	35,781
Disposals	-	(47,449)	-	-	(47,449)
Transfer	-	-	-	-	-
Effect of EX rate	-	(233)	-	-	(233)
As at 9/30/2019	<u>\$1,743</u>	<u>\$278,319</u>	<u>\$17,793</u>	<u>\$1,908</u>	<u>\$299,763</u>
<u>Depreciation and impairment:</u>					
As at 1/1/2020	\$581	\$123,449	\$6,888	\$815	\$131,733
Depreciation	871	93,927	5,166	769	100,733

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Impairment loss	-	-	-	-	-
Disposal	-	(157,534)	-	-	(157,534)
Transfer	-	-	-	-	-
Effect of EX rate	-	(10)	-	-	(10)
As at 9/30/2020	<u>\$1,452</u>	<u>\$59,832</u>	<u>\$12,054</u>	<u>\$1,584</u>	<u>\$74,922</u>
As at 1/1/2019	\$-	\$-	\$-	\$-	\$-
Depreciation	291	97,802	5,166	559	103,818
Impairment loss	-	-	-	-	-
Disposal	-	(3,002)	-	-	(3,002)
Transfer	-	-	-	-	-
Effect of EX rate	-	(137)	-	-	(137)
As at 9/30/2019	<u>\$291</u>	<u>\$94,663</u>	<u>\$5,166</u>	<u>\$559</u>	<u>\$100,679</u>
<u>Net carrying amount:</u>					
As at 9/30/2020	<u>\$291</u>	<u>\$117,025</u>	<u>\$5,739</u>	<u>\$906</u>	<u>\$123,961</u>
As at 12/31/2019	<u>\$1,162</u>	<u>\$152,966</u>	<u>\$10,905</u>	<u>\$1,675</u>	<u>\$166,708</u>
As at 9/30/2019	<u>\$1,452</u>	<u>\$183,656</u>	<u>\$12,627</u>	<u>\$1,349</u>	<u>\$199,084</u>

II. Lease liabilities

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Lease liabilities	<u>\$124,817</u>	<u>\$172,080</u>	<u>\$203,569</u>
Current	<u>\$49,871</u>	<u>\$113,937</u>	<u>\$134,945</u>
Non-current	<u>\$74,946</u>	<u>\$58,143</u>	<u>\$68,624</u>

Please refer to Note 6(19) (c) for the interest on lease liabilities recognized for the three-month and nine-month periods ended September 30, 2020 and 2019; and refer to Note 12(5) Liquidity Risk Management for the maturity analysis for lease liabilities as at September 30, 2020, December 31, 2019 and September 30, 2019.

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b. Income and costs relating to leasing activities

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
The expense relating to short-term leases	\$(9,794)	\$(6,782)	\$(19,397)	\$(21,282)
The expense relating to leases of low-value assets	(153)	(355)	(724)	(899)
Income from subleasing right-of-use assets	135	257	577	413

As at September 30, 2020, December 31, 2019, and September 30, 2019, 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.

For the three-month and nine-month periods ended September 30, 2020, the Group recognized NT\$2,371 thousand and NT\$5,705 thousand as income to account the rent concession arising as a direct consequence of the covid-19 pandemic as a variable lease payment.

c. Cash outflow relating to leasing activities

During the nine-month period ended September 30, 2020 and 2019, the Group's total cash outflow for leases amounting to NT\$126,645 thousand and NT\$123,599 thousand respectively.

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

Nature \ Function	For the three-month period ended September 30,					
	2020			2019		
	Operating Costs	Operating expenses	Total	Operating Costs	Operating expenses	Total
Employee benefit expense						
Salaries	\$144,508	\$128,269	\$272,777	\$122,449	\$102,591	\$225,040
Labor and health insurance	11,729	8,039	19,768	11,450	7,686	19,136
Pension	4,058	4,041	8,099	3,439	4,016	7,455

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Other employee benefit expense	7,097	5,476	12,573	5,543	4,070	9,613
Depreciation	129,395	20,336	149,731	149,615	22,007	171,622
Amortization	20	709	729	-	483	483

Nature \ Function	For the nine-month period ended September 30,					
	2020			2019		
	Operating Costs	Operating expenses	Total	Operating Costs	Operating expenses	Total
Employee benefit expense						
Salaries	\$360,078	\$341,429	\$701,507	\$375,099	\$267,385	\$642,484
Labor and health insurance	34,083	24,164	58,247	37,476	20,335	57,811
Pension	11,114	11,989	23,103	12,309	10,748	23,057
Other employee benefit expense	19,493	14,550	34,043	17,293	10,835	28,128
Depreciation	407,901	61,300	469,201	451,800	62,425	514,225
Amortization	20	2,091	2,111	-	1,212	1,212

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 three-month periods ended September 30, 2020 and 2019 amounted to NT\$30,541 thousand, NT\$2,655 thousand, and NT\$17,388 thousand, NT\$1,512 respectively; the employees' compensation and remuneration to directors for the nine-month periods ended September 30, 2020 and 2019 amounted to NT\$65,336 thousand, NT\$5,681, and NT\$47,954 thousand, NT\$4,170 thousand respectively, recognized as employee benefits.

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The Company's Board has determined the employees' compensation and directors' remuneration, 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' remuneration, 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. Interest income

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Interest income				
Deposit interest	\$970	\$531	\$2,370	\$1,790
Financial assets measured at amortized cost	227	-	1,063	599
Total	<u>\$1,197</u>	<u>\$531</u>	<u>\$3,433</u>	<u>\$2,389</u>

B. Other incomes

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Rental income	\$135	\$257	\$577	\$413
Government grants income	6	-	11	-
Other income - others	5,598	1,101	11,549	1,910
Total	<u>\$5,739</u>	<u>\$1,358</u>	<u>\$12,137</u>	<u>\$2,323</u>

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C. Other gains and losses

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Gain (loss) from disposal of property, plant and equipment	\$134	\$(1,563)	\$634	\$(1,547)
Foreign exchange gain (loss), net	7,731	(6,098)	(568)	2,845
Gains (losses) on financial assets at fair value through profit or loss	191	-	716	-
Gains (losses) on lease modification	(34)	-	21	183
Impairment loss on non-financial assets	(5,395)	-	(5,395)	(12,149)
Other losses	(3,642)	(15)	(3,708)	(88)
Total	<u>\$(1,015)</u>	<u>\$(7,676)</u>	<u>\$(8,300)</u>	<u>\$(10,756)</u>

D. Finance costs

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Interests on borrowings from bank	\$475	\$5,507	\$1,757	\$17,170
Interest on lease liabilities	356	659	1,290	2,259
Total	<u>\$831</u>	<u>\$6,166</u>	<u>\$3,047</u>	<u>\$19,429</u>

(20) Components of other comprehensive income (loss)

For the three-month periods ended September 30, 2020

	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	<u>\$2,214</u>	<u>\$-</u>	<u>\$2,214</u>	<u>\$-</u>	<u>\$2,214</u>

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For the three-month periods ended September 30, 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	\$(2,271)	\$-	\$(2,271)	\$-	\$(2,271)

For the nine-month periods ended September 30, 2020

	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	\$(653)	\$-	\$(653)	\$-	\$(653)

For the nine-month periods ended September 30, 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	\$(924)	\$-	\$(924)	\$-	\$(924)

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(21)Income tax

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

Income tax expense (benefit) recognized in profit or loss

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Current income tax expense (income):				
Current income tax expense	\$36,950	\$27,411	\$81,227	\$89,580
Adjustments in respect of current income tax of prior periods	(4,587)	(1,419)	(7,684)	(18,115)
Deferred tax expense (income):				
Deferred tax expense (income) relating to origination and reversal of temporary differences	729	820	3,631	1,849
Total income tax expense (income)	<u>\$33,092</u>	<u>\$26,812</u>	<u>\$77,174</u>	<u>\$73,314</u>

B.The assessment of income tax return

As at September 30, 2020, 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 (after adjusting any influences) 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.

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A. Basic earnings per share

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Net income available to common shareholders of the parent	\$202,902	\$107,696	\$434,138	\$298,023
Weighted average number of common stocks outstanding (in thousand shares)	70,000	60,000	70,000	60,000
Basic earnings per share (in NT\$)	\$2.90	\$1.79	\$6.20	\$4.97

B. Diluted earnings per share

	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Net income available to common shareholders of the parent	\$202,902	\$107,696	\$434,138	\$298,023
Net income available to common shareholders of the parent after dilution	\$202,902	\$107,696	\$434,138	\$298,023
Weighted average number of common stocks outstanding (in thousand shares)	70,000	60,000	70,000	60,000
Effect of dilution:				
Employee bonus (compensation) - stock (in thousand shares)	323	248	390	346
Weighted average number of common stocks outstanding after dilution (in thousand shares)	70,323	60,248	70,390	60,346
Diluted earnings per share (in NT\$)	\$2.89	\$1.78	\$6.17	\$4.94

No other transactions that would significantly change the outstanding common stocks or potential common stocks 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 at 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

(2) Significant transactions with related parties

A. Lease-related parties

a. Right-of-use assets

Related parties	Nature	As at		
		30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Pegatron Corporation	Buildings	\$-	\$59,555	\$81,887
Other related parties	Buildings	844	1,480	4,533
Total		\$844	\$61,035	\$86,420

b. Lease liabilities

Related parties	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Pegatron Corporation	\$-	\$65,406	\$86,380
Other related parties	854	1,489	4,564
Total	\$854	\$66,895	\$90,944

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c. Lease payment (Rental expense)

Related parties	Nature	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
		2020	2019	2020	2019
Pegatron Corporation	Other equipments	\$156	\$235	\$625	\$749
Pegatron Corporation	Buildings	7,673	-	7,673	-
Total		\$7,829	\$235	\$8,298	\$749

d. Interest expenses

Related parties	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
	2020	2019	2020	2019
Pegatron Corporation	\$9	\$303	\$248	\$1,166
Other related parties	3	16	12	50
Total	\$12	\$319	\$260	\$1,216

B. Operating expense

Related parties	Nature	For the three-month period ended Sep. 30,		For the nine-month period ended Sep. 30,	
		2020	2019	2020	2019
Pegatron Corporation	Provide services	\$83	\$83	\$279	\$316
Pegatron Corporation	Pay utilities	\$16,775	\$18,764	\$54,397	\$55,620
Other related parties	Provide services and pay utilities and postage	\$32	\$33	\$96	\$98
Other related parties	Provide services and pay utilities and postage	\$-	\$12	\$-	\$34
Other related parties	Provide services	\$83	\$-	\$67	\$-

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C. Refundable deposits

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Pegatron Corporation	\$10,000	\$10,000	\$10,000

D. Accounts receivable - related parties

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Kinsus Interconnect Technology Corp.	\$-	\$5	\$-
Less: loss allowance	-	-	-
Net	\$-	\$5	\$-

E. Other payables

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Pegatron Corporation	\$31,669	\$16,660	\$18,235
Other related parties	8	61	9
Total	\$31,677	\$16,721	\$18,244

F. Salaries and rewards to key management of the Group

	For the three-month period ended Sep, 30		For the nine-month period ended Sep, 30	
	2020	2019	2020	2019
Short-term employee benefits and post-employment benefits	\$1,492	\$11,235	\$5,764	\$15,699

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

8. PLEDGED ASSETS

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

Item	Carrying Amount as at			Secured liabilities
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019	
Property, plant and equipment - Land (carrying amount)	\$1,317,564	\$1,317,564	\$1,317,564	Secured borrowings
Property, plant and equipment - Buildings (carrying amount)	62,305	65,473	66,529	Secured borrowings
Refundable deposits	2,000	2,000	2,000	Security deposit to custom authority
Total	<u>\$1,381,859</u>	<u>\$1,385,037</u>	<u>\$1,386,093</u>	

9. SIGNIFICANT CONTINGENCIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As at September 30, 2020, 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	\$1,429,548	\$24,849	\$1,404,699
Machinery and equipment	116,920	33,316	83,604
Total	<u>\$1,546,468</u>	<u>\$58,165</u>	<u>\$1,488,303</u>

10. SIGNIFICANT DISASTER LOSS

None

11. SIGNIFICANT SUBSEQUENT EVENT

None

12. OTHERS

(1) Categories of financial instruments

Financial assets

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Financial assets at fair value through profit or loss:			
Mandatorily measured at fair value through profit or loss	\$260,538	\$316,120	\$-
Financial assets measured at amortized cost	1,763,613	1,068,456	985,587
Total	<u>\$2,024,151</u>	<u>\$1,384,576</u>	<u>\$985,587</u>

Financial liabilities

	As at		
	30 Sep. 2020	31 Dec. 2019	30 Sep. 2019
Financial liabilities at amortized cost:			
Short-term borrowings	\$261,162	\$128,914	\$494,592
Payables	943,808	755,740	698,289
Long-term borrowings (including current portion with maturity less than 1 year)	4,913	-	1,175,000
Lease liabilities	124,817	172,080	203,569
Total	<u>\$1,334,700</u>	<u>\$1,056,734</u>	<u>\$2,571,450</u>

(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 activities. 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.

Foreign currency risk

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 nine-month periods ended September 30, 2020 and 2019 would decrease/increase by NT\$896 thousand and NT\$1,191 thousand, respectively.

When NTD appreciates/depreciates against CNY by 1%, net income (loss) for the nine-month periods ended September 30, 2020 and 2019 would decrease/increase by NT\$2,007 thousand and NT\$954 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 nine-month periods ended September 30, 2020 and 2019 would increase /decrease by NT\$3,944 thousand and decrease/increase by NT\$4,019 thousand, respectively.

Equity price risk

As at September 30, 2020 and 2019, 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 at September 30, 2020, December 31, 2019 and September 30, 2019, receivables from the top ten customers were accounted for 80.55%, 51.59% and 69.19% of the Group's total accounts receivable, respectively. The concentration of credit risk is relatively insignificant for the remaining receivables.

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

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.

Non-derivative financial instruments

	<u>Less than 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>>5 years</u>	<u>Total</u>
<u>As at September 30, 2020</u>							
Borrowings	\$261,489	\$23	\$1,271	\$2,512	\$1,252	\$-	\$266,547
Payables	943,808	-	-	-	-	-	943,808
Lease liabilities	50,998	32,102	14,768	6,748	4,871	18,314	127,801
<u>As at December 31, 2019</u>							
Borrowings	\$129,508	\$-	\$-	\$-	\$-	\$-	\$129,508
Payables	755,740	-	-	-	-	-	755,740
Lease liabilities	115,220	34,160	18,082	4,411	1,425	794	174,092

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

As at September 30, 2019

Borrowings	\$582,037	\$119,158	\$131,191	\$129,760	\$109,485	\$698,088	\$1,769,719
Payables	698,289	-	-	-	-	-	698,289
Lease liabilities	136,892	38,750	21,351	6,494	1,931	992	206,410

(6) Movement schedule of liabilities arising from financing activities

Movement schedule of liabilities for the nine-month periods ended 30 September 2020:

	Short-term borrowings	Long-term borrowings	Refundable deposits	Lease liabilities	Total liabilities from financing activities
As at January 1, 2020	\$128,914	\$-	\$762	\$172,080	\$301,756
Cash flows	132,248	5,000	(132)	(106,524)	30,592
Non-cash changes					
Lease range changes	-	-	-	58,041	58,041
Interests on lease liabilities	-	-	-	1,290	1,290
Others	-	(87)	-	-	(87)
Currency rate change	-	-	-	(70)	(70)
As at September 30, 2020	\$261,162	\$4,913	\$630	\$124,817	\$391,522

Movement schedule of liabilities for the nine-month periods ended 30 September 2019:

	Short-term borrowings	Long-term borrowings	Refundable deposits	Lease liabilities	Total liabilities from financing activities
As at January 1, 2019	\$159,501	\$600,000	\$2,059	\$311,664	\$1,073,224
Cash flows	335,091	575,000	(1,297)	(101,418)	807,376
Non-cash changes					
Lease range changes	-	-	-	(8,849)	(8,849)
Interests on lease liabilities	-	-	-	2,259	2,259
Currency rate change	-	-	-	(87)	(87)
As at September 30, 2019	\$494,592	\$1,175,000	\$762	\$203,569	\$1,873,923

(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 at September 30, 2020

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Money market fund	\$260,538	\$-	\$-	\$260,538
<u>Financial liabilities:</u>				
None				

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

As at December 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
Financial assets at fair value through profit or loss				
Money market fund	\$316,120	\$-	\$-	\$316,120

Financial liabilities:

None

As at September 30, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets:</u>				
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 at					
	30 Sep. 2020			31 Dec. 2019		
	Foreign Currencies	Exchange Rate	NTD	Foreign Currencies	Exchange Rate	NTD
<u>Financial assets</u>						
Monetary items:						
USD	\$12,122	29.115	\$352,944	\$7,597	29.980	\$227,791
CNY	\$55,356	4.275	\$236,662	\$61,860	4.297	\$265,844

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Financial liabilities

Monetary items:

USD	<u>\$9,045</u>	29.115	<u>\$263,346</u>	<u>\$4,331</u>	29.980	<u>\$129,846</u>
CNY	<u>\$8,412</u>	4.275	<u>\$35,964</u>	<u>\$6,422</u>	4.297	<u>\$27,598</u>

Foreign currency resulting in exchange gain or loss

USD			<u>\$(4,792)</u>	USD	<u>\$1,242</u>
CNY			<u>\$4,421</u>	CNY	<u>\$(9,807)</u>
Other			<u>\$(197)</u>	Other	<u>\$70</u>

As at

30 Sep. 2019

	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>NTD</u>
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Financial assets

Monetary items:

USD	<u>\$11,179</u>	30.944	<u>\$345,932</u>
CNY	<u>\$29,594</u>	4.076	<u>\$120,621</u>

Financial liabilities

Monetary items:

USD	<u>\$7,308</u>	31.040	<u>\$226,827</u>
CNY	<u>\$5,750</u>	4.389	<u>\$25,234</u>

Foreign currency resulting in exchange gain or loss

USD	<u>\$4,603</u>
CNY	<u>\$(4,055)</u>
Other	<u>\$2,297</u>

(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 at September 30, 2020 (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 nine-month period ended September 30, 2020: 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 nine-month period ended September 30, 2020: 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 nine-month period ended September 30, 2020: 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 nine-month period ended September 30, 2020: Please refer to attachment 3.

H. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as at September 30, 2020: Please refer to attachment 4.

I. Derivative instrument transactions: None.

J. Inter Group relationships and significant inter Group transactions for the nine-month period ended September 30, 2020: Please refer to attachment 7.

(2) Information on investees

A. Investees over whom the Group exercises significant influence or control (excluding investees in Mainland China): Please refer to attachment 5.

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 at September 30, 2020 (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 nine-month periods ended September 30, 2020: 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 nine-month period ended September 30, 2020: 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 nine-month period ended September 30, 2020: 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 nine-month period ended September 30, 2020: Please refer to attachment 6.

h. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital as at September 30, 2020: None.

i. Derivative instrument transactions: None.

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

(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 at January 1, 2020	Investment Flows		Accumulated Outflow of Investment from Taiwan as at September 30, 2020	Profit/Loss of Investee	Percentage of Ownership (Direct or Indirect Investment)	Share of Profit/Loss	Carrying Amount as at September 30, 2020	Accumulated Inward Remittance of Earnings as at September 30, 2020	Accumulated Outflow of Investment from Taiwan to Mainland China as at September 30, 2020	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)	\$112,559	\$-	\$-	\$112,559	\$6,746 (Note 3 and 6)	100%	\$6,746 (Note 3, 6 and 8)	\$105,535 (Note 3, 6 and 8)	\$-	\$112,559	\$112,559	\$2,587,314
Gemvision Technology (Zhejiang) Limited	Selling medical equipment	\$94,057 (Note 3 and 5)	(Note 2)	\$-	\$-	\$-	\$-	\$6,812 (Note 3 and 6)	100%	\$6,812 (Note 3, 6, 7 and 8)	\$95,865 (Note 3, 6, 7 and 8)	\$-	\$-	\$-	

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

Note 1: For the consideration of reorganization, the equity of Pegavision Contact Lenses (Shanghai) Corporation was transferred to the Company from Pegavision Holdings Corporation. The registration was completed at May 13, 2020.

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 CNY22,000 thousand.

Note 6: Gain/loss on investment is recognized based on the reviewed 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.

Pegavision Corporation and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Amounts Expressed in Thousands of New Taiwan Dollars unless Otherwise Specified)

B.Purchase and balances of related accounts payable as at September 30, 2020: None.

C.Sale and balance of related accounts receivable as at September 30, 2020:

	Sales		Account Receivable	
	Amount	Percentage of the net sales	Amount	Percentage of the Account Receivable
Pegavision Contact Lenses (Shanghai) Corporation	\$3,516	0.14%	\$783	0.10%
Gemvision Technology (Zhejiang) Limited	392,409	15.27%	251,756	32.36%

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.

D.Property transaction amounts and resulting gain or loss: None.

E.Ending balance of endorsements/guarantees or collateral provided and the purposes: None.

F.Maximum balance, ending balance, interest rate range and total interest for current period from financing provided to others: None.

G.Transactions that have significant impact on profit or loss of current period or the financial position, such as services provided or rendered: None.

(4)Information on major shareholders

Major shareholders	Shares	%
Kinsus Investment Co., Ltd.	21,233,736	30.33%
LIU, BO-WEN	5,756,000	8.06%
Asuspower Investment Co., Ltd.	5,480,121	7.82%
Asustek Investment Co., Ltd.	4,934,434	7.04%

14. OPERATING SEGMENT

The major operating revenues of the Group come from selling contact lenses. The management assess the Group is single operating segment.

Pegavision Corporation and Subsidiaries

Marketable Securities Held as of September 30, 2020 (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 September 30, 2020			Fair Value	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	13,324,011	\$203,115	-%	\$203,147	
	Yuanta DE-Li Money Market Fund	-	Financial assets at fair value through profit or loss	3,493,908	57,185	-%	57,391	
	Add: Valuation Adjustment				238			
	Total				<u>\$260,538</u>		<u>\$260,538</u>	

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 nine-month period ended September 30, 2020

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	-	-	11,778,166	<u>\$179,017</u>	59,616,028	<u>\$908,000</u>	58,070,183	<u>\$884,298</u>	<u>\$883,902</u>	<u>\$396</u>	13,324,011	<u>\$203,115</u>

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 nine-month period ended September 30, 2020

Attachment 3

(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	\$1,100,805	42.83%	90 days after monthly closing	Similar to those to third party customers.	T/T to 90 days after monthly closing	Accounts receivable	52.28%	Note
									\$406,802		
									Contract liabilities	38.59%	
								\$(38,734)			
Pegavision Corporation	Gemvision Technology (Zhejiang) Limited	Subsidiary	Sales	\$392,409	15.27%	Within 180 days after monthly closing	Similar to those to third party customers.	T/T to 90 days after monthly closing	Accounts receivable	32.36%	Note
									\$251,756		

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 September 30, 2020

Attachment 4

(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	\$406,802 (Note and Note 1)	5.30	\$-	-	\$79,949	\$-
Pegavision Corporation	Gemvision Technology (Zhejiang) Limited	Subsidiary	\$251,756 (Note and Note 1)	3.45	\$-	-	\$-	\$-

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 September 30, 2020

Attachment 5

(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 September 30, 2020	As of December 31, 2019	Shares	%	Carrying Value			
Pegavision Corporation	Pegavision Holdings Corporation	Samoa	Investing activities	- (Note 1)	USD3,630	-	-%	\$- (Note 1)	\$10,152	\$10,152	Note
Pegavision Corporation	Pagavision Japan Inc.	Japan	Selling medical facility product technology	JPY 9,900	JPY 9,900	198	100.00%	\$39,122	\$13,170	\$13,170	Note
Pegavision Corporation	Aquamax Corporation	Taiwan	Selling medical facility product technology	NTD 10,000	(Not applicable)	1,000,000	100.00%	\$9,966	\$(35)	\$(35)	Note
Aquamax Corporation	Aquamax Vision Corporation	USA	Selling medical facility product technology	USD 100	(Not applicable)	10,000,000	100.00%	\$2,912	\$-	\$-	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

Note 1: For the consideration of reorganization, the equity of Pegavision Holdings Corporation was struck off the register at September 2, 2020.

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 nine-month period ended September 30, 2020

Attachment 6

(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	\$1,100,805	100.00%	90 days after monthly closing	No suppliers to be compared with	No suppliers to be compared with	Accounts payable \$368,068	100.00%	Note
Gemvision Technology (Zhejiang) Limited	Pegavision Corporation	Subsidiary	Purchase	\$392,409	100.00%	Within 180 days after monthly closing	No suppliers to be compared with	No suppliers to be compared with	Accounts payable \$251,756	100.00%	Note

Note: Transactions are eliminated when preparing the consolidated financial statements.

Pegavision Corporation and Subsidiaries

Intercompany Relationships and Significant Intercompany Transactions for the nine-month period ended September 30, 2020

Attachment 7

(In Thousands of New Taiwan Dollars)

No. (Note 1)	Company Name	Counter-Party	Nature of Relationship (Note 2)	Intercompany Transaction			Percentage to Consolidated Net Revenue or Total Assets (Note 3)
				Financial Statement Account	Amount	Terms	
	<u>2020.01.01~2020.09.30</u>						
0	Pegavision Corporation	Pegavision Japan Inc.	1	Sales revenue	\$1,100,805	90 days after monthly closing	42.91%
0	Pegavision Corporation	Pegavision Japan Inc.	1	Accounts receivable	406,802	90 days after monthly closing	6.89%
0	Pegavision Corporation	Pegavision Japan Inc.	1	Contract liabilities	38,734	-	0.66%
0	Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	1	Sales revenue	3,516	Within 180 days after monthly closing	0.14%
0	Pegavision Corporation	Pegavision Contact Lenses (Shanghai) Corporation	1	Accounts receivable	783	Within 180 days after monthly closing	0.01%
0	Pegavision Corporation	Gemvision Technology (Zhejiang) Limited	1	Sales revenue	392,409	Within 180 days after monthly closing	15.30%
0	Pegavision Corporation	Gemvision Technology (Zhejiang) Limited	1	Accounts receivable	251,756	Within 180 days after monthly closing	4.27%
0	Pegavision Corporation	Aquamax Corporation	1	Guarantee deposit received	4	-	-%
0	Pegavision Corporation	Aquamax Corporation	1	Rent revenue	12	10th of the month	-%
1	Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	1	Sales revenue	7,873	Within 180 days after monthly closing	0.31%
1	Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	1	Accounts receivable	1,767	Within 180 days after monthly closing	0.03%
1	Pegavision Contact Lenses (Shanghai) Corporation	Gemvision Technology (Zhejiang) Limited	1	Other operating income	9,988	-	0.39%

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.

Note 4: Foreign currencies were converted into New Taiwan dollars based on the exchange rate of balance sheet date.