

**POLYTRONICS TECHNOLOGY CORP. AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REVIEW REPORT  
NINE MONTHS ENDED SEPTEMBER 30, 2021 AND  
2020**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

## INDEPENDENT AUDITORS' REVIEW REPORT TRANSLATED FROM CHINESE

PWCR21000132

To the Board of Directors and Shareholders of Polytronics Technology Corp.

### **Introduction**

We have reviewed the accompanying consolidated balance sheets of Polytronics Technology Corp. and subsidiaries (the "Group") as of September 30, 2021 and 2020, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

### **Scope of our review**

We conducted our reviews in accordance with the Statement of Auditing Standards No. 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". 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 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.

### **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 Group as at September 30, 2021 and 2020, and of its consolidated financial performance for the three months and nine months then ended and its consolidated cash flows for the nine months then ended in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard 34, "Interim financial reporting" as endorsed by the Financial Supervisory Commission.

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Hsieh, Chih-Cheng

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Lin, Yu-Kuan

For and on behalf of PricewaterhouseCoopers, Taiwan  
November 9, 2021

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. 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, PricewaterhouseCoopers, Taiwan 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.

**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2021, DECEMBER 31, 2020 AND SEPTEMBER 30, 2020**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of September 30, 2021 and 2020 are reviewed)

Assets		Notes	September 30, 2021		December 31, 2020		September 30, 2020	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 1,363,123	25	\$ 1,257,168	36	\$ 1,131,373	37
1110	Financial assets at fair value	6(2)						
	through profit or loss - current		-	-	84	-	-	-
1136	Current financial assets at	8						
	amortised cost		499,445	9	92,456	3	22,456	1
1150	Notes receivable, net	6(3)	221,056	4	155,331	5	114,064	4
1170	Accounts receivable, net	6(3)	632,742	12	317,771	9	304,855	10
1180	Accounts receivable - related	6(3) and 7						
	parties, net		141,692	3	85,768	3	69,102	2
1200	Other receivables		19,766	-	8,206	-	12,407	-
130X	Inventories	6(4)	665,181	12	283,870	8	216,738	7
1410	Prepayments		101,406	2	130,449	4	112,407	3
1470	Other current assets		23,612	-	1,016	-	1,321	-
11XX	<b>Total current assets</b>		<u>3,668,023</u>	<u>67</u>	<u>2,332,119</u>	<u>68</u>	<u>1,984,723</u>	<u>64</u>
<b>Non-current assets</b>								
1535	Non-current financial assets at	8						
	amortised cost		6,881	-	6,881	-	6,882	-
1600	Property, plant and equipment	6(5) and 8	1,129,014	21	727,447	21	732,402	24
1755	Right-of-use assets	6(6)	204,679	4	213,582	6	216,360	7
1760	Investment property, net	6(8) and 8	109,620	2	111,535	3	112,174	4
1780	Intangible assets		194,416	4	3,406	-	2,726	-
1840	Deferred income tax assets		17,523	-	17,588	1	16,985	1
1900	Other non-current assets		119,130	2	36,448	1	9,477	-
15XX	<b>Total non-current assets</b>		<u>1,781,263</u>	<u>33</u>	<u>1,116,887</u>	<u>32</u>	<u>1,097,006</u>	<u>36</u>
1XXX	<b>Total assets</b>		<u>\$ 5,449,286</u>	<u>100</u>	<u>\$ 3,449,006</u>	<u>100</u>	<u>\$ 3,081,729</u>	<u>100</u>

(Continued)

**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2021, DECEMBER 31, 2020 AND SEPTEMBER 30, 2020**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of September 30, 2021 and 2020 are reviewed)

Liabilities and Equity		Notes	September 30, 2021		December 31, 2020		September 30, 2020	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>								
2100	Short-term borrowings	6(9)	\$ 840,796	16	\$ 327,998	10	\$ 330,945	11
2110	Short-term notes and bills payable		-	-	70,000	2	-	-
2120	Financial liabilities at fair value through profit or loss - current	6(2)	-	-	-	-	84	-
2130	Current contract liabilities	6(18)	2,167	-	7,849	-	1,172	-
2150	Notes payable		51,329	1	32,591	1	26,736	1
2170	Accounts payable	6(10)	280,921	5	179,883	5	120,378	4
2200	Other payables	6(11)	381,058	7	257,050	8	186,560	6
2230	Current income tax liabilities		87,906	2	71,767	2	54,008	2
2280	Current lease liabilities		12,954	-	12,731	-	12,603	-
2300	Other current liabilities		14,921	-	2,530	-	5,128	-
21XX	<b>Total current liabilities</b>		<u>1,672,052</u>	<u>31</u>	<u>962,399</u>	<u>28</u>	<u>737,614</u>	<u>24</u>
<b>Non-current liabilities</b>								
2530	Bonds payable	6(12)	255,353	5	-	-	-	-
2580	Non-current lease liabilities		185,801	3	193,772	6	196,487	7
2600	Other non-current liabilities		41,892	1	42,949	1	40,074	1
25XX	<b>Total non-current liabilities</b>		<u>483,046</u>	<u>9</u>	<u>236,721</u>	<u>7</u>	<u>236,561</u>	<u>8</u>
2XXX	<b>Total liabilities</b>		<u>2,155,098</u>	<u>40</u>	<u>1,199,120</u>	<u>35</u>	<u>974,175</u>	<u>32</u>
<b>Equity</b>								
<b>Equity attributable to owners of parent</b>								
	Share capital	6(14)						
3110	Common stock		856,453	16	800,018	23	800,018	26
	Capital surplus	6(15)						
3200	Capital surplus		625,558	11	235,900	7	235,900	7
	Retained earnings	6(16)						
3310	Legal reserve		558,243	10	518,412	15	518,412	17
3320	Special reserve		70,304	1	79,893	2	79,893	3
3350	Unappropriated retained earnings		722,123	13	685,966	20	559,269	18
	Other equity interest	6(17)						
3400	Other equity interest		( 85,740)	( 1)	( 70,303)	( 2)	( 85,938)	( 3)
31XX	<b>Equity attributable to owners of parent</b>		<u>2,746,941</u>	<u>50</u>	<u>2,249,886</u>	<u>65</u>	<u>2,107,554</u>	<u>68</u>
36XX	<b>Non-controlling interests</b>		<u>547,247</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3XXX	<b>Total equity</b>		<u>3,294,188</u>	<u>60</u>	<u>2,249,886</u>	<u>65</u>	<u>2,107,554</u>	<u>68</u>
	Significant contingent liabilities and unrecognised contract commitments	9						
	Significant events after the reporting period	11						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 5,449,286</u>	<u>100</u>	<u>\$ 3,449,006</u>	<u>100</u>	<u>\$ 3,081,729</u>	<u>100</u>

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020  
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)  
(Reviewed, but not audited)

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2021		2020		2021		2020	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(18) and 7	\$ 952,420	100	\$ 475,749	100	\$ 2,319,079	100	\$ 1,242,436	100
5000 Operating costs	6(4)	( 646,106)	( 68)	( 243,612)	( 51)	( 1,438,379)	( 62)	( 637,826)	( 51)
5950 Net operating margin		<u>306,314</u>	<u>32</u>	<u>232,137</u>	<u>49</u>	<u>880,700</u>	<u>38</u>	<u>604,610</u>	<u>49</u>
Operating expenses	6(23)(24)								
6100 Selling and marketing expenses		( 67,544)	( 7)	( 22,715)	( 5)	( 134,972)	( 6)	( 66,765)	( 5)
6200 General and administrative expenses		( 62,409)	( 6)	( 51,097)	( 11)	( 181,251)	( 8)	( 144,269)	( 12)
6300 Research and development expenses		( 36,051)	( 4)	( 38,522)	( 8)	( 115,894)	( 5)	( 100,367)	( 8)
6450 Expected credit gain (loss)	12(2)	<u>476</u>	<u>-</u>	<u>( 5,655)</u>	<u>( 1)</u>	<u>2,534</u>	<u>-</u>	<u>( 6,949)</u>	<u>( 1)</u>
6000 Total operating expenses		<u>( 165,528)</u>	<u>( 17)</u>	<u>( 117,989)</u>	<u>( 25)</u>	<u>( 429,583)</u>	<u>( 19)</u>	<u>( 318,350)</u>	<u>( 26)</u>
6900 Operating profit		<u>140,786</u>	<u>15</u>	<u>114,148</u>	<u>24</u>	<u>451,117</u>	<u>19</u>	<u>286,260</u>	<u>23</u>
Non-operating income and expenses									
7100 Interest income	6(19)	1,168	-	1,650	-	5,188	-	4,592	1
7010 Other income	6(20)	31,531	3	19,102	4	72,962	3	51,450	4
7020 Other gains and losses	6(21)	( 10,349)	( 1)	( 3,001)	-	( 22,358)	( 1)	( 8,634)	( 1)
7050 Finance costs	6(22)	( 3,310)	-	( 1,462)	-	( 9,705)	-	( 4,478)	-
7000 Total non-operating income and expenses		<u>19,040</u>	<u>2</u>	<u>16,289</u>	<u>4</u>	<u>46,087</u>	<u>2</u>	<u>42,930</u>	<u>4</u>
7900 Profit before income tax		<u>159,826</u>	<u>17</u>	<u>130,437</u>	<u>28</u>	<u>497,204</u>	<u>21</u>	<u>329,190</u>	<u>27</u>
7950 Income tax expense	6(25)	<u>( 32,657)</u>	<u>( 4)</u>	<u>( 26,718)</u>	<u>( 6)</u>	<u>( 105,166)</u>	<u>( 4)</u>	<u>( 57,576)</u>	<u>( 5)</u>
8200 Profit (loss) for the period		<u>\$ 127,169</u>	<u>13</u>	<u>\$ 103,719</u>	<u>22</u>	<u>\$ 392,038</u>	<u>17</u>	<u>\$ 271,614</u>	<u>22</u>
Other comprehensive (loss) income									
Components of other comprehensive income that may be subsequently reclassified to profit or loss									
8361 Financial statements translation differences of foreign operations	6(17)	( \$ 901)	-	\$ 15,349	3	( \$ 19,676)	( 1)	( \$ 6,045)	( 1)
8360 Components of other comprehensive loss that may be subsequently reclassified to profit or loss		<u>( 901)</u>	<u>-</u>	<u>15,349</u>	<u>3</u>	<u>( 19,676)</u>	<u>( 1)</u>	<u>( 6,045)</u>	<u>( 1)</u>
8300 Other comprehensive income (loss) for the period, net of income tax		<u>( \$ 901)</u>	<u>-</u>	<u>\$ 15,349</u>	<u>3</u>	<u>( \$ 19,676)</u>	<u>( 1)</u>	<u>( \$ 6,045)</u>	<u>( 1)</u>
8500 Total comprehensive income for the period		<u>\$ 126,268</u>	<u>13</u>	<u>\$ 119,068</u>	<u>25</u>	<u>\$ 372,362</u>	<u>16</u>	<u>\$ 265,569</u>	<u>21</u>
Profit attributable to:									
8610 Owners of parent		\$ 135,834	14	\$ 103,719	22	\$ 426,382	18	\$ 271,614	22
8620 Non-controlling interests		<u>( 8,665)</u>	<u>( 1)</u>	<u>-</u>	<u>-</u>	<u>( 34,344)</u>	<u>( 1)</u>	<u>-</u>	<u>-</u>
Total		<u>\$ 127,169</u>	<u>13</u>	<u>\$ 103,719</u>	<u>22</u>	<u>\$ 392,038</u>	<u>17</u>	<u>\$ 271,614</u>	<u>22</u>
Total comprehensive income attributable to:									
8710 Owners of parent		\$ 135,221	14	\$ 119,068	25	\$ 410,945	18	\$ 265,569	21
8720 Non-controlling interests		<u>( 8,953)</u>	<u>( 1)</u>	<u>-</u>	<u>-</u>	<u>( 38,583)</u>	<u>( 2)</u>	<u>-</u>	<u>-</u>
Total		<u>\$ 126,268</u>	<u>13</u>	<u>\$ 119,068</u>	<u>25</u>	<u>\$ 372,362</u>	<u>16</u>	<u>\$ 265,569</u>	<u>21</u>
9750 Basic earnings per share (in dollars)	6(26)	<u>\$ 1.59</u>		<u>\$ 1.30</u>		<u>\$ 5.05</u>		<u>\$ 3.40</u>	
9850 Diluted earnings per share (in dollars)	6(26)	<u>\$ 1.55</u>		<u>\$ 1.29</u>		<u>\$ 4.95</u>		<u>\$ 3.37</u>	

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020  
(Expressed in thousands of New Taiwan dollars)  
(Reviewed, but not audited)

		Equity attributable to owners of the parent												
		Capital Reserves						Retained Earnings			Financial statements translation differences of foreign operations	Total	Non-controlling interests	Total equity
Notes	Common stock	Additional paid-in capital	Treasury stock transactions	Capital Surplus, changes in ownership interests in subsidiaries	Employee stock options	Capital surplus, share options	Legal reserve	Special reserve	Unappropriated retained earnings					
<u>Nine months ended September 30, 2020</u>														
		\$ 800,018	\$ 203,343	\$ 14,924	\$ -	\$ 17,633	\$ -	\$ 481,790	\$ 50,367	\$ 673,810	(\$ 79,893)	\$ 2,161,992	\$ -	\$ 2,161,992
		-	-	-	-	-	-	-	-	271,614	-	271,614	-	271,614
	6(17)	-	-	-	-	-	-	-	-	-	( 6,045)	( 6,045)	-	( 6,045)
Total comprehensive income (loss)		-	-	-	-	-	-	-	-	271,614	( 6,045)	265,569	-	265,569
Distribution of 2019 earnings:	6(16)													
Legal reserve		-	-	-	-	-	-	36,622	-	( 36,622)	-	-	-	-
Special reserve		-	-	-	-	-	-	-	29,526	( 29,526)	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	( 320,007)	-	( 320,007)	-	( 320,007)
Balance at September 30, 2020		<u>\$ 800,018</u>	<u>\$ 203,343</u>	<u>\$ 14,924</u>	<u>\$ -</u>	<u>\$ 17,633</u>	<u>\$ -</u>	<u>\$ 518,412</u>	<u>\$ 79,893</u>	<u>\$ 559,269</u>	<u>(\$ 85,938)</u>	<u>\$ 2,107,554</u>	<u>\$ -</u>	<u>\$ 2,107,554</u>
<u>Nine months ended September 30, 2021</u>														
		\$ 800,018	\$ 203,343	\$ 14,924	\$ -	\$ 17,633	\$ -	\$ 518,412	\$ 79,893	\$ 685,966	(\$ 70,303)	\$ 2,249,886	\$ -	\$ 2,249,886
		-	-	-	-	-	-	-	-	426,382	-	426,382	( 34,344)	392,038
	6(17)	-	-	-	-	-	-	-	-	-	( 15,437)	( 15,437)	( 4,239)	( 19,676)
Total comprehensive income (loss)		-	-	-	-	-	-	-	-	426,382	( 15,437)	410,945	( 38,583)	372,362
Distribution of 2020 earnings:	6(16)													
Legal reserve		-	-	-	-	-	-	39,831	-	( 39,831)	-	-	-	-
Reversal of special reserve		-	-	-	-	-	-	-	( 9,589)	9,589	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	( 359,983)	-	( 359,983)	-	( 359,983)
Capital increase by cash	6(14)	47,000	272,600	-	-	-	-	-	-	-	-	319,600	-	319,600
Capital increase by cash - reserved for subscription by employees		-	-	-	-	12,930	-	-	-	-	-	12,930	-	12,930
Issuance of corporate bonds		-	-	-	-	-	16,374	-	-	-	-	16,374	-	16,374
Conversion of convertible bonds		9,435	86,596	-	-	-	( 4,334)	-	-	-	-	91,697	-	91,697
Cash contributed by non-controlling interests in subsidiaries' capital increase		-	-	-	5,492	-	-	-	-	-	-	5,492	585,830	591,322
Balance at September 30, 2021		<u>\$ 856,453</u>	<u>\$ 562,539</u>	<u>\$ 14,924</u>	<u>\$ 5,492</u>	<u>\$ 30,563</u>	<u>\$ 12,040</u>	<u>\$ 558,243</u>	<u>\$ 70,304</u>	<u>\$ 722,123</u>	<u>(\$ 85,740)</u>	<u>\$ 2,746,941</u>	<u>\$ 547,247</u>	<u>\$ 3,294,188</u>

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

**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**  
(Expressed in thousands of New Taiwan dollars)  
(Reviewed, but not audited)

		Nine months ended September 30	
	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 497,204	\$ 329,190
Adjustments			
Adjustments to reconcile profit (loss)			
Net loss on financial assets / liabilities at fair value			
through profit or loss		84	178
Expected credit (gain) loss	12(2)	( 2,534 )	6,949
Depreciation	6(21)(23)	102,162	79,788
Amortisation	6(23)	8,775	1,639
Interest expense	6(22)	9,705	4,478
Interest income	6(19)	( 5,188 )	( 4,592 )
(Gains) / losses on disposal of property, plant and equipment	6(21)	( 82 )	1,983
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		( 67,406 )	19,688
Accounts receivable		( 314,403 )	( 29,144 )
Accounts receivable - related parties		( 55,924 )	37,061
Other receivables		( 11,560 )	( 1,667 )
Inventories		( 339,345 )	2,962
Prepayments		29,043	( 50,880 )
Other current assets		( 22,596 )	( 742 )
Changes in operating liabilities			
Current contract liabilities		( 5,682 )	( 1,993 )
Notes payable		18,738	( 898 )
Accounts payable		101,038	( 6,230 )
Other payables		92,008	( 16,604 )
Other current liabilities		12,391	3,275
Defined benefit liabilities		( 323 )	( 103 )
Cash inflow generated from operations		46,105	374,338
Interest received		5,188	4,592
Interest paid		( 9,705 )	( 4,478 )
Income tax paid		( 88,962 )	( 115,910 )
Net cash flows (used in) from operating activities		( 47,374 )	258,542

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**POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**  
(Expressed in thousands of New Taiwan dollars)  
(Reviewed, but not audited)

	Notes	Nine months ended September 30 2021	2020
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of financial assets at amortised cost		(\$ 954,313 )	(\$ 19,289 )
Disposal of financial assets at amortised cost		547,325	-
Effect of changes in consolidated entities	6(27)	( 584,985 )	-
Acquisition of property, plant and equipment	6(28)	( 183,090 )	( 26,528 )
Proceeds from disposal of property, plant and equipment		1,465	15
Acquisition of intangible assets		( 18,222 )	( 1,800 )
Increase in refundable deposits		( 57 )	( 360 )
Net cash flows used in investing activities		( 1,191,877 )	( 47,962 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings	6(29)	1,674,357	755,802
Repayment of short-term borrowings	6(29)	( 1,152,920 )	( 497,614 )
Short-term notes and bills payable	6(29)	( 70,000 )	-
Issuance of corporate bonds	6(29)	359,525	-
Repayment of lease liabilities	6(29)	( 7,748 )	( 7,725 )
(Decrease) increase in deposits-in	6(29)	( 734 )	52
Capital increase by cash		319,600	-
Cash dividends paid	6(16)	( 359,983 )	( 320,007 )
Cash contributed by non-controlling interests in subsidiaries' capital increase		591,322	-
Net cash flows from (used in) financing activities		1,353,419	( 69,492 )
Effect of exchange rate		( 8,213 )	( 7,629 )
Net increase in cash and cash equivalents		105,955	133,459
Cash and cash equivalents at beginning of period		1,257,168	997,914
Cash and cash equivalents at end of period	6(1)	\$ 1,363,123	\$ 1,131,373

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

POLYTRONICS TECHNOLOGY CORP. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

(Reviewed, but not audited)

**1. HISTORY AND ORGANISATION**

Polytronics Technology Corporation (the “Company”) was incorporated on December 18, 1997 and commenced operations on August 1, 1999. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the research, development, manufacture and sale of polymeric positive temperature coefficient thermistors , overvoltage protection devices and their production related semi-finished goods, modules and dies, thermal conductive boards, thermal modules, heat dispersing materials and LED lightings and modules.

**2. THE DATE OF AND PROCEDURES FOR AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements were reported to the Board of Directors on November 9, 2021.

**3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

**(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)**

New standards, interpretations and amendments endorsed by the FSC effective from 2021 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board (“IASB”)
Amendments to IFRS 4, ‘Extension of the temporary exemption from applying IFRS 9’	January 1, 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, ‘Interest rate benchmark reform – phase 2’	January 1, 2021
Amendment to IFRS 16, ‘Covid-19-related rent concessions beyond 30 June 2021’	April 1, 2021 (Note)

Note: Earlier application from January 1, 2021 is allowed by FSC.

The above standards and interpretations have no significant impact to the Group’s financial position and financial performance based on the Group’s assessment.

(2) Effect of new, revised or amended IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2022 are as follows:

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 3, 'Reference to the conceptual framework'	January 1, 2022
Amendments to IAS 16, 'Property, plant and equipment: proceeds before intended use'	January 1, 2022
Amendments to IAS 37, 'Onerous contracts – cost of fulfilling a contract'	January 1, 2022
Annual improvements to IFRS Standards 2018–2020 cycle	January 1, 2022
The above standards and interpretations have no significant impact to the Group's financial position and financial performance based on the Group's assessment.	

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by IASB
IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IFRS 17, 'Insurance contracts'	January 1, 2023
Amendments to IAS 1, 'Classification of liabilities as current or non-current'	January 1, 2023
Amendments to IAS 1, 'Disclosure of accounting policies'	January 1, 2023
Amendments to IAS 8, 'Definition of accounting estimates'	January 1, 2023
Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction'	January 1, 2023

The above standards and interpretations have no significant impact to the Group's financial position and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2020, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

A. These consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and

International Accounting Standards 34, “Interim financial reporting” as endorsed by the FSC.

- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2020.

(2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
  - (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:

The same basis of consolidation have been followed in these consolidated financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2020.

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B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiaries	Activities	Ownership (%)			Note
			September 30, 2021	December 31, 2020	September 30, 2020	
Polytronics Technology Corporation	Polytronics (B.V.I.) Corporation	Investments and general business operations	100	100	100	
Polytronics Technology Corporation	TCLAD Technology Corporation	Manufacturing of the thermal conductive board	56.27	100	100	Note 1
TCLAD Technology Corporation	TCLAD Inc.	Manufacturing of the thermal conductive board	100	-	-	Note 2
TCLAD Technology Corporation	TCLAD Europe GmbH	Manufacturing of the thermal conductive board	85	-	-	Note 3
Polytronics (B.V.I.) Corporation	Kunshan Polystar Electronics Co., Ltd.	Production and sale of varistor and potentiometer	100	100	100	
Kunshan Polystar Electronics Co., Ltd.	Polystar Senchip Microelectronics Inc.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	-	100	100	Note 4
Kunshan Polystar Electronics Co., Ltd.	PolyStellar Electronics Co., Ltd.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	100	100	100	

Note 1: It was established by the Company on May 4, 2020. Additionally, on March 1, 2021, the Company participated in the cash capital increase of TCLAD Technology Corporation. After completing the capital increase, the Company's shareholding interests of TCLAD Technology Corporation decreased from 100% to 56.27% because the Company did not acquire new shares proportionately to its shareholding interests.

Note 2: It was established on May 29, 2020.

Note 3: It was established on April 30, 2021.

Note 4: On December 25, 2020, the Board of Directors of Polytronics Technology Corp. resolved to liquidate and dissolve Polystar Senchip Microelectronics, Inc. and the liquidation and de-registration was completed on June 15, 2021.

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group:

As of September 30, 2021, December 31, 2020 and September 30, 2020, the non-controlling interests amounted to \$547,247, \$0 and \$0, respectively. The information of non-controlling interests and respective subsidiaries is as follows:

Name of subsidiary	Principal place of business	Non-controlling interests September 30, 2021		
		Amount	Ownership (%)	Description
TCLAD Technology Corporation	Taiwan	\$ 547,247	43.73%	

Balance sheet:

	TCLAD Technology Corporation and Subsidiaries September 30, 2021	
Current assets	\$	1,356,824
Non-current assets		549,256
Current liabilities	(	655,692)
Non-current liabilities		-
Total net assets	\$	1,250,388

Statement of comprehensive income:

	TCLAD Technology Corporation and Subsidiaries July 1, 2021 to September 30, 2021	
Revenue	\$	337,744
Profit before income tax	(	19,683)
Income tax expense	(	133)
Profit for the period	(	19,816)
Other comprehensive income, net of income tax	(	9,646)
Total comprehensive income	(\$	29,462)
Total comprehensive income attributable to non-controlling interests	(\$	118)
Dividends paid to non-controlling interests	\$	-

TCLAD Technology Corporation and Subsidiaries	
March 1, 2021 to September 30, 2021	
Revenue	\$ 543,052
Profit before income tax	( 78,968)
Income tax expense	( 133)
Profit for the period	( 79,101)
Other comprehensive income, net of income tax	( 9,646)
Total comprehensive income	(\$ 88,747)
Total comprehensive income attributable to non-controlling interests	(\$ 133)
Dividends paid to non-controlling interests	\$ -

Statement of cash flows:

TCLAD Technology Corporation and Subsidiaries	
March 1, 2021 to September 30, 2021	
Net cash used in operating activities	(\$ 1,092,064)
Net cash used in investing activities	( 331,389)
Net cash provided by financing activities	1,758,750
Effect of exchange rates	-
Increase in cash and cash equivalents	335,297
Cash and cash equivalents, beginning of period	10,503
Cash and cash equivalents, end of period	\$ 345,800

#### (4) Convertible bonds payable

Convertible bonds issued by the Group contain conversion options (that is, the bondholders have the right to convert the bonds into the Group's common shares by exchanging a fixed amount of cash for a fixed number of common shares). The Group classifies the bonds payable and derivative features embedded in convertible bonds upon issuance as a financial asset, a financial liability or an equity instrument in accordance with the contract terms. They are accounted for as follows:

- A. The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to "Finance costs" over the period of circulation using the effective interest method.
- B. The embedded conversion options which meet the definition of an equity instrument are initially recognised in "Capital surplus – share options" at the residual amount of total issue price less bonds payable as stated above. Conversion options are not subsequently remeasured.
- C. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.
- D. When bondholders exercise conversion options, the liability component of the bonds (including



bonds payable shall be remeasured on the conversion date. The issuance cost of converted common shares is the total book value of the abovementioned liability component and “Capital surplus – share options”.

(5) Employee benefits

Defined benefit plans

Pension cost for the interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. Additionally, the related information is disclosed accordingly.

(6) Income tax

- A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

There have been no significant changes for the nine months ended September 30, 2021. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2020.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Cash on hand and revolving funds	\$ 108	\$ 99	\$ 72
Checking accounts and demand deposits	870,442	376,478	304,734
Time deposits	492,573	880,591	826,567
	<u>\$ 1,363,123</u>	<u>\$ 1,257,168</u>	<u>\$ 1,131,373</u>

The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

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

Items	September 30, 2021	December 31, 2020	September 30, 2020
Current items:			
Financial assets (liabilities) mandatorily measured at fair value through profit or loss			
Derivative instruments- forward foreign exchange contracts	\$ -	\$ -	\$ -
Valuation adjustment	-	84	( 84)
Total	<u>\$ -</u>	<u>\$ 84</u>	<u>(\$ 84)</u>

A. The Group recognised net profit (loss) of \$0, \$151, \$339 and (\$393) on financial assets (liabilities) held for trading for the three months and nine months ended September 30, 2021 and 2020, respectively.

B. The Group entered into contracts relating to derivative financial instruments not accounted for under hedge accounting and contract information are as follows:

September 30, 2021: None.

		December 31, 2020	
Derivative financial instruments		Contract amount (notional principal)	Contract period
Forward foreign exchange contracts	USD	1,765 thousand	2020/12/11~2021/02/05

  

		September 30, 2020	
Derivative financial instruments		Contract amount (notional principal)	Contract period
Forward foreign exchange contracts	USD	678 thousand	2020/09/22~2020/10/30

C. Information relating to credit risk of financial assets at fair value through profit or loss is provided in Note 12(2).

(3) Notes and accounts receivable

	September 30, 2021	December 31, 2020	September 30, 2020
Notes receivable	<u>\$ 221,056</u>	<u>\$ 155,331</u>	<u>\$ 114,064</u>
Accounts receivable	<u>\$ 650,897</u>	<u>\$ 338,654</u>	<u>\$ 313,233</u>
Accounts receivable-related parties	141,692	85,768	69,102
Less: Loss allowance	( 18,155)	( 20,883)	( 8,378)
	<u>\$ 774,434</u>	<u>\$ 403,539</u>	<u>\$ 373,957</u>

A. The ageing analysis of accounts receivable and notes receivable is as follows:

	September 30, 2021		December 31, 2020	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not past due	\$ 743,254	\$ 221,056	\$ 383,607	\$ 155,331
Up to 30 days	30,681	-	19,041	-
31 to 90 days	3,385	-	1,730	-
91 to 180 days	90	-	4,766	-
Over 180 days	15,179	-	15,278	-
	<u>\$ 792,589</u>	<u>\$ 221,056</u>	<u>\$ 424,422</u>	<u>\$ 155,331</u>

  

	September 30, 2020	
	Accounts receivable	Notes receivable
Not past due	\$ 340,416	\$ 114,064
Up to 30 days	20,449	-
31 to 90 days	9,142	-
91 to 180 days	8,821	-
Over 180 days	3,507	-
	<u>\$ 382,335</u>	<u>\$ 114,064</u>

The above ageing analysis was based on past due date.

- B. As of September 30, 2021, December 31, 2020 and September 30, 2020, accounts receivable and notes receivable were all from contracts with customers. As of January 1, 2020, the balance of receivables from contracts with customers amounted to \$525,927.
- C. As at September 30, 2021, December 31, 2020 and September 30, 2020, without taking into account any collaterals held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's notes receivable were \$221,056, \$155,331 and \$114,064, respectively, and accounts receivable were \$774,434, \$403,539 and \$373,957, respectively.
- D. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

(4) Inventories

	September 30, 2021	December 31, 2020	September 30, 2020
Raw materials	\$ 223,309	\$ 93,144	\$ 81,695
Work-in-progress	204,931	100,835	74,296
Finished goods	236,941	89,891	60,747
	<u>\$ 665,181</u>	<u>\$ 283,870</u>	<u>\$ 216,738</u>

The cost of inventories recognised as expense for the period:

	Three months ended September 30,	
	2021	2020
Cost of goods sold	\$ 646,106	\$ 246,666
Reveral of inventory valuation loss	-	( 3,054)
	<u>\$ 646,106</u>	<u>\$ 243,612</u>
	Nine months ended September 30,	
	2021	2020
Cost of goods sold	\$ 1,444,623	\$ 639,274
Reveral of inventory valuation loss	( 6,244)	( 1,448)
	<u>\$ 1,438,379</u>	<u>\$ 637,826</u>

The Group reversed from a previous inventory write-down and accounted for as reduction of cost of goods sold because some inventories with allowance for valuation loss had been sold for the three months ended September 30, 2020, and nine months September 30, 2021 and 2020.

(5) Property, plant and equipment

	2021									
	Land	Buildings	Machinery equipment	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Other equipment	Construction in progress	Total
At January 1										
Cost	\$ -	\$ 797,686	\$ 566,379	\$ 9,614	\$ 11,115	\$ 16,368	\$ 19,926	\$ 170,948	\$ 3,483	\$ 1,595,519
Accumulated depreciation and impairment	- ( 307,874)	( 390,733)	( 7,108)	( 6,853)	( 8,410)	( 17,630)	( 129,464)	- ( 868,072)		
	<u>\$ -</u>	<u>\$ 489,812</u>	<u>\$ 175,646</u>	<u>\$ 2,506</u>	<u>\$ 4,262</u>	<u>\$ 7,958</u>	<u>\$ 2,296</u>	<u>\$ 41,484</u>	<u>\$ 3,483</u>	<u>\$ 727,447</u>
Opening net book amount	\$ -	\$ 489,812	\$ 175,646	\$ 2,506	\$ 4,262	\$ 7,958	\$ 2,296	\$ 41,484	\$ 3,483	\$ 727,447
Additions	-	52,767	46,733	1,268	1,457	3,985	-	15,053	8,444	129,707
Disposals	-	- ( 1,328)	( 20)	( 33)	-	-	- ( 2)	- ( 1,383)		
Reclassifications	-	2,379	1,090	-	-	-	-	- ( 3,469)	-	
Acquired through business combinations	2,128	147,149	212,752	2,025	1,176	211	-	2,627	-	368,068
Depreciation	- ( 28,422)	( 42,021)	( 830)	( 930)	( 2,321)	( 425)	( 16,480)	- ( 91,429)		
Net exchange differences	- ( 1,747)	( 1,398)	( 31)	( 15)	( 77)	-	( 105)	( 23)	( 3,396)	
Closing net book amount	<u>\$ 2,128</u>	<u>\$ 661,938</u>	<u>\$ 391,474</u>	<u>\$ 4,918</u>	<u>\$ 5,917</u>	<u>\$ 9,756</u>	<u>\$ 1,871</u>	<u>\$ 42,577</u>	<u>\$ 8,435</u>	<u>\$ 1,129,014</u>
At September 30										
Cost	\$ 2,128	\$ 997,046	\$ 809,016	\$ 12,609	\$ 13,098	\$ 20,487	\$ 19,926	\$ 187,659	\$ 8,435	\$ 2,070,404
Accumulated depreciation and impairment	- ( 335,108)	( 417,542)	( 7,691)	( 7,181)	( 10,731)	( 18,055)	( 145,082)	- ( 941,390)		
	<u>\$ 2,128</u>	<u>\$ 661,938</u>	<u>\$ 391,474</u>	<u>\$ 4,918</u>	<u>\$ 5,917</u>	<u>\$ 9,756</u>	<u>\$ 1,871</u>	<u>\$ 42,577</u>	<u>\$ 8,435</u>	<u>\$ 1,129,014</u>

2020

	Buildings	Machinery equipment	Office equipment	Transportation equipment	Computer and communication equipment	Leasehold improvements	Other equipment	Total
At January 1								
Cost	\$ 792,117	\$ 565,905	\$ 8,099	\$ 11,065	\$ 10,010	\$ 19,926	\$ 170,903	\$ 1,578,025
Accumulated depreciation and impairment	( 272,844)	( 377,983)	( 6,212)	( 5,521)	( 7,441)	( 17,041)	( 114,785)	( 801,827)
	<u>\$ 519,273</u>	<u>\$ 187,922</u>	<u>\$ 1,887</u>	<u>\$ 5,544</u>	<u>\$ 2,569</u>	<u>\$ 2,885</u>	<u>\$ 56,118</u>	<u>\$ 776,198</u>
Opening net book amount	\$ 519,273	\$ 187,922	\$ 1,887	\$ 5,544	\$ 2,569	\$ 2,885	\$ 56,118	\$ 776,198
Additions	1,120	16,892	1,382	-	5,759	-	2,550	27,703
Disposals	-	( 1,985)	( 13)	-	-	-	-	( 1,998)
Reclassifications	-	-	-	-	1,085	-	746	1,831
Depreciation	( 25,222)	( 24,316)	( 664)	( 1,018)	( 1,180)	( 442)	( 16,140)	( 68,982)
Net exchange differences	( 1,148)	( 1,094)	( 12)	( 13)	-	-	( 83)	( 2,350)
Closing net book amount	<u>\$ 494,023</u>	<u>\$ 177,419</u>	<u>\$ 2,580</u>	<u>\$ 4,513</u>	<u>\$ 8,233</u>	<u>\$ 2,443</u>	<u>\$ 43,191</u>	<u>\$ 732,402</u>
At September 30								
Cost	\$ 791,399	\$ 559,022	\$ 9,360	\$ 11,034	\$ 15,966	\$ 19,926	\$ 173,937	\$ 1,580,644
Accumulated depreciation and impairment	( 297,376)	( 381,603)	( 6,780)	( 6,521)	( 7,733)	( 17,483)	( 130,746)	( 848,242)
	<u>\$ 494,023</u>	<u>\$ 177,419</u>	<u>\$ 2,580</u>	<u>\$ 4,513</u>	<u>\$ 8,233</u>	<u>\$ 2,443</u>	<u>\$ 43,191</u>	<u>\$ 732,402</u>

1. For the nine months ended September 30, 2021 and 2020, there was no capitalisation of borrowing costs attributable to property, plant and equipment.
2. Information about property, plant and equipment that were pledged to others as collateral is provided in Note 8.
3. Above property, plant and equipment are owner-occupied.

(6) Leasing arrangements — lessee

- A. The Group leases various assets including land, buildings and business vehicles. Lease agreements are typically made for periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.
- B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
	<u>Carrying amount</u>	<u>Carrying amount</u>	<u>Carrying amount</u>
Land	\$ 195,306	\$ 199,434	\$ 200,597
Buildings	8,461	11,987	13,163
Transportation equipment	912	2,161	2,600
	<u>\$ 204,679</u>	<u>\$ 213,582</u>	<u>\$ 216,360</u>

	<u>Three months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
	<u>Depreciation</u>	<u>Depreciation</u>
Land	\$ 1,346	\$ 1,345
Buildings	1,176	1,175
Transportation equipment	371	443
	<u>\$ 2,893</u>	<u>\$ 2,963</u>

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
	<u>Depreciation</u>	<u>Depreciation</u>
Land	\$ 4,040	\$ 4,036
Buildings	3,527	3,526
Transportation equipment	1,251	1,329
	<u>\$ 8,818</u>	<u>\$ 8,891</u>

- C. For the three months and nine months ended September 30, 2021 and 2020, the additions to right-of-use assets amounted to \$0, \$532, \$0 and \$1,807, respectively.
- D. The information on income and expense accounts relating to lease agreements is as follows:

	Three months ended September 30,	
	2021	2020
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 701	\$ 737
	Nine months ended September 30,	
	2021	2020
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$ 2,132	\$ 2,235

E. For the nine months ended September 30, 2021 and 2020, the Group's total cash outflow for leases amounted to \$9,880 and \$9,960, respectively.

F. Extension and termination options

In determining the lease term, the Group takes into consideration all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option. The assessment of lease period is reviewed if a significant event occurs which affects the assessment.

(7) Leasing arrangements – lessor

- A. The Group leases buildings to others. Lease agreements are typically made for periods of 1 to years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. To protect the lessor's ownership rights on the leased assets, leased assets may not be used as security for borrowing purposes, or a residual value guarantee was required.
- B. For the three months and nine months ended September 30, 2021 and 2020, the Group recognised rental income in the amounts of \$11,492, \$13,646, \$40,490 and \$38,654, respectively, based on the operating lease agreement, which does not include variable lease payments.
- C. The maturity analysis of the lease payments collectible under the operating leases is as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
2020	\$ -	\$ -	\$ 13,464
2021	11,905	44,489	44,489
2022	43,098	32,604	32,604
2023	34,810	31,930	31,930
2024	16,469	13,681	13,681
2025	2,788	-	-
	<u>\$ 109,070</u>	<u>\$ 122,704</u>	<u>\$ 136,168</u>



(8) Investment property

	2021	2020
	<u>Buildings</u>	<u>Buildings</u>
At January 1		
Cost	\$ 130,238	\$ 130,238
Accumulated depreciation	( 18,703)	( 16,149)
	<u>\$ 111,535</u>	<u>\$ 114,089</u>
Opening net book amount	\$ 111,535	\$ 114,089
Depreciation	( 1,915)	( 1,915)
Closing net book amount	<u>\$ 109,620</u>	<u>\$ 112,174</u>
At September 30		
Cost	\$ 130,238	\$ 130,238
Accumulated depreciation	( 20,618)	( 18,064)
	<u>\$ 109,620</u>	<u>\$ 112,174</u>

A. Rental income from investment property and direct operating expenses arising from investment property are shown below:

	Three months ended September 30,	
	2021	2020
Rental income from investment property	<u>\$ 11,492</u>	<u>\$ 13,646</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>\$ 537</u>	<u>\$ 638</u>
	Nine months ended September 30,	
	2021	2020
Rental income from investment property	<u>\$ 40,490</u>	<u>\$ 38,654</u>
Direct operating expenses arising from the investment property that generated rental income during the period	<u>\$ 2,646</u>	<u>\$ 2,757</u>

- B. The fair value of investment property held by the Group as of September 30, 2021, December 31, 2020 and September 30, 2020 were all \$238,688. The fair value is estimated using the valuation method frequently used by market participants which is categorised with Level 3 in the fair value hierarchy. The valuation is based on evidence of similar trading prices.
- C. Information about the investment property that were pledged to others as collateral is provided in Note 8.

(9) Short-term borrowings

Type of borrowings	September 30, 2021	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 223,046	0.731%	None
Secured borrowings	617,750	0.699%	Buildings and time deposits
	<u>\$ 840,796</u>		
Type of borrowings	December 31, 2020	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 127,998	0.899%	None
Secured borrowings	200,000	0.825%	Buildings
	<u>\$ 327,998</u>		
Type of borrowings	September 30, 2020	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	\$ 130,945	0.897%	None
Secured borrowings	200,000	0.825%	Buildings
	<u>\$ 330,945</u>		

Interest expense recognised in profit or loss amounted to \$1,303, \$714, \$3,521 and \$2,202 for the three months and nine months ended September 30, 2021 and 2020, respectively.

(10) Accounts payable

	September 30, 2021	December 31, 2020	September 30, 2020
Accounts payable	\$ 251,201	\$ 168,943	\$ 109,360
Estimated accounts payable	29,720	10,940	11,018
	<u>\$ 280,921</u>	<u>\$ 179,883</u>	<u>\$ 120,378</u>

(11) Other payables

	September 30, 2021	December 31, 2020	September 30, 2020
Wages and salaries payable	\$ 81,299	\$ 82,208	\$ 66,355
Employee bonus and directors' remuneration payable	57,562	54,087	36,668
Payables on machinery and equipment	53,972	18,073	9,567
Others	188,225	102,682	73,970
	<u>\$ 381,058</u>	<u>\$ 257,050</u>	<u>\$ 186,560</u>

(12) Bonds payable

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Bonds payable			
The Company's first unsecured convertible bonds	\$ 360,000	\$ -	\$ -
	360,000	-	-
Less: Conversion option amount exercised	( 95,300)	-	-
Less: Discount on bonds payable	( 9,347)	-	-
	255,353	-	-
Less: Current portion	-	-	-
	<u>\$ 255,353</u>	<u>\$ -</u>	<u>\$ -</u>

A. On November 11, 2020, the Company's Board of Directors resolved to issue the first domestic unsecured convertible bonds. The issuance has been approved by the FSC and was issued on January 18, 2021, the terms of the issuance were as following:

- (a) Total issuance amount: \$360 million.
- (b) The issuance price: The face value was \$100,000 (in dollars) and was issued at 101% of face value.
- (c) Issuance duration: 3 years (from January 18, 2021 to January 18, 2024).
- (d) Coupon rate of bonds: 0%.
- (e) Payback date and method: Except for converting into common shares during conversion period or repurchased and retired by the Company in advance, the bonds will be repaid at once in cash at face value on maturity date.
- (f) Conversion period: From three months after the issuance date (April 19, 2021) and ending on the maturity date (January 18, 2024), the creditor may request conversion at any time, except during the legal suspension of the transfer period.
- (g) Conversion price and adjustment: The conversion price was \$107 (in dollars) per share at issuance. However, if the ex-rights and ex-dividends occur after the issuance, the applicable conversion price was subject to adjustments based on the conversion price adjustment formula.
- (h) The rights and obligations of the new shares after conversion are the same as those of the Company's ordinary shares.
- (i) Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.
- (j) Regarding the issuance of convertible bonds, the equity conversion options amounting to \$16,374 were separated from the liability component and were recognised in "Capital surplus – share options" in accordance with IAS 32. The effective interest rates of the

bonds payable after such separation ranged 1.5989%.

- (k) Through September 30, 2021, the convertible corporate bonds with face value of \$95,300 have been converted into 944 thousand ordinary shares.

(13) Pensions

- A. (a) The Company and its domestic subsidiaries have a defined benefit pension plan in accordance with the Labor Standards Act, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Labor Standards Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2.5% of the employees' monthly salaries and wages to the pension fund deposited with Bank of Taiwan, the trustee, under the name of the independent pension fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$367, \$392, \$1,099 and \$1,177 for the three months and nine months ended September 30, 2021 and 2020, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2022 amounted to \$2,864.
- B. (a) Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act, covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.
- (b) The Company's mainland China subsidiary, Polystar Electronics Co., Ltd., has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) is based on a certain percentage of employees' monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.
- (c) The Group's US subsidiary employee plan is in accordance with the provisions of the US 401K event plan. All officially appointed employees can be retired and deposited in the personal leave fund account according to the legal age. The US subsidiary can rely on the

employee's contribution to each employee. Relative deposits within 8% of the deposits are deposited in personal fund accounts.

- (d) The pension costs under the defined contribution pension plans of the Group for the three months and nine months ended September 30, 2021 and 2020, were \$9,287, \$2,133, \$18,824 and \$6,943, respectively.

(14) Share capital

As of September 30, 2021, the Company's authorised capital was \$1,000,000, consisting of 100 million ordinary shares (including 5 million shares reserved for employee stock options), and the paid-in capital was \$847,216 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares):

	2021	2020
At January 1	80,002	80,002
Cash capital increase	4,700	-
Conversion of convertible bonds	944	-
At September 30	<u>85,646</u>	<u>80,002</u>

On November 11, 2020, the Company's Board of Directors approved to increase its capital in cash by issuing 4,700 thousand new shares, except for 10% reserved for employees in accordance with laws and 10% contributed for public offering in accordance with the Securities and Exchange Act. The remainings were subscribed by the original shareholders according to their shareholding ratio specified in the shareholder register at the effective date for the capital increase which was set on February 2, 2021.

(15) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(16) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve, except as legal reserve reaches amount equal to the paid-in capital, then setting aside or reversing special reserve according to the resolution of

shareholders during their meeting or the request by competent authorities. Appropriation of remainder, and unappropriated retained earnings from prior years, shall be proposed by the Board of Directors and resolved by the stockholders' meeting.

In accordance with Company Act Article 240, Item 5 and Article 241, Item 2, the resolution, for all or a portion of distributable dividends, legal reserve and capital surplus that are distributed in the form of cash, will be adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, and will be reported to the shareholders, shall not be subject to the resolution at the shareholders' meeting.

- B. Dividend policy: As the Company is in a rapidly changing industry and in the growth stage, and considering the Company's long-term financial plans, shareholders' long-term interest and stabilising performance target, cash dividend distribution shall not be lower than 10% of the total dividend distribution.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. (a) In accordance with the regulations, the Company shall set aside special reserve based on debit balances of other equity items at the balance sheet date before distributing earnings. When debit balances of other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- (b) The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- E. The appropriations for 2020 and 2019 earnings had been resolved at shareholders' meeting on August 10, 2021 and June 24, 2020, respective. Details are summarised below:

	2020		2019	
	Dividends per share		Dividends per share	
	Amount	(in dollars)	Amount	(in dollars)
Legal reserve	\$ 39,831		\$ 36,622	
Special reserve	( 9,589)		29,526	
Cash dividends	359,983	\$ 4.25	320,007	\$ 4.00
	<u>\$ 390,225</u>		<u>\$ 386,155</u>	

(17) Other equity items

	Financial statements translation difference of foreign operations
At January 1, 2021	(\$ 70,303)
Currency translation differences	( 15,437)
At September 30, 2021	(\$ 85,740)
	Financial statements translation difference of foreign operations
At January 1, 2020	(\$ 79,893)
Currency translation differences	( 6,045)
At September 30, 2020	(\$ 85,938)

(18) Operating revenue

	Three months ended September 30,	
	2021	2020
Sales revenue	\$ 952,420	\$ 475,749
	Nine months ended September 30,	
	2021	2020
Sales revenue	\$ 2,319,079	\$ 1,242,436

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions:

Three months ended September 30, 2021	China	Taiwan	USA	Others	Total
Sales revenue	\$ 411,947	\$ 136,479	\$ 298,604	\$ 105,390	\$ 952,420
Timing of revenue recognition					
At a point in time	\$ 411,947	\$ 136,479	\$ 298,604	\$ 105,390	\$ 952,420
Three months ended September 30, 2020	China	Taiwan	USA	Others	Total
Sales revenue	\$ 297,707	\$ 80,081	\$ 70,386	\$ 27,575	\$ 475,749
Timing of revenue recognition					
At a point in time	\$ 297,707	\$ 80,081	\$ 70,386	\$ 27,575	\$ 475,749
Nine months ended September 30, 2021	China	Taiwan	USA	Others	Total
Sales revenue	\$ 1,138,300	\$ 299,946	\$ 668,783	\$ 212,050	\$ 2,319,079
Timing of revenue recognition					
At a point in time	\$ 1,138,300	\$ 299,946	\$ 668,783	\$ 212,050	\$ 2,319,079

Nine months ended September 30, 2020	China	Taiwan	USA	Others	Total
Sales revenue	<u>\$ 702,624</u>	<u>\$ 234,667</u>	<u>\$ 224,364</u>	<u>\$ 80,781</u>	<u>\$ 1,242,436</u>
Timing of revenue recognition					
At a point in time	<u>\$ 702,624</u>	<u>\$ 234,667</u>	<u>\$ 224,364</u>	<u>\$ 80,781</u>	<u>\$ 1,242,436</u>

## B. Contract assets and liabilities

(a) The Group has recognised the following revenue-related contract assets and liabilities:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>	<u>January 1, 2020</u>
Contract liabilities:				
Contract liabilities –				
Advance sales receipts	<u>\$ 2,167</u>	<u>\$ 7,849</u>	<u>\$ 1,172</u>	<u>\$ 3,165</u>

(b) Revenue recognised that was included in the contract liabilities balance at the beginning of the period:

	<u>Three months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	<u>\$ 68</u>	<u>\$ 196</u>
	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	<u>\$ 7,690</u>	<u>\$ 3,032</u>

## (19) Interest income

	<u>Three months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Interest income from bank deposits	<u>\$ 1,163</u>	<u>\$ 1,643</u>
Interest income from financial assets at amortised cost	<u>5</u>	<u>7</u>
	<u>\$ 1,168</u>	<u>\$ 1,650</u>
	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Interest income from bank deposits	<u>\$ 5,157</u>	<u>\$ 4,490</u>
Interest income from financial assets at amortised cost	<u>31</u>	<u>102</u>
	<u>\$ 5,188</u>	<u>\$ 4,592</u>



(20) Other income

	Three months ended September 30,	
	2021	2020
Rental income	\$ 11,492	\$ 13,646
Other income, others	20,039	5,456
	<u>\$ 31,531</u>	<u>\$ 19,102</u>
	Nine months ended September 30,	
	2021	2020
Rental income	\$ 40,490	\$ 38,654
Other income, others	32,472	12,796
	<u>\$ 72,962</u>	<u>\$ 51,450</u>

(21) Other gains and losses

	Three months ended September 30,	
	2021	2020
Gains (losses) on disposals of property, plant and equipment	\$ 30	(\$ 54)
Net currency exchange losses	( 6,434)	( 2,263)
Gains on financial assets at fair value through profit or loss	-	151
Depreciation-investment property	( 638)	( 638)
Other losses	( 3,307)	( 197)
	<u>(\$ 10,349)</u>	<u>(\$ 3,001)</u>
	Nine months ended September 30,	
	2021	2020
Gains (losses) on disposals of property, plant and equipment	\$ 82	(\$ 1,983)
Net currency exchange losses	( 14,856)	( 2,977)
Gains (losses) on financial assets at fair value through profit or loss	339	( 393)
Depreciation-investment property	( 1,915)	( 1,915)
Other losses	( 6,008)	( 1,366)
	<u>(\$ 22,358)</u>	<u>(\$ 8,634)</u>

(22) Finance costs

	Three months ended September 30,	
	2021	2020
Interest expense	\$ 3,310	\$ 1,462
	Nine months ended September 30,	
	2021	2020
Interest expense	\$ 9,705	\$ 4,478

(23) Expenses by nature

	Three months ended September 30,	
	2021	2020
Employee benefit expenses	\$ 269,716	\$ 90,588
Depreciation on property, plant and equipment (Note)	39,662	26,736
Amortisation on intangible assets	4,678	542
	Nine months ended September 30,	
	2021	2020
Employee benefit expenses	\$ 598,332	\$ 258,714
Depreciation on property, plant and equipment (Note)	102,162	79,788
Amortisation on intangible assets	8,775	1,639

Note: Including investment property and right-of-use assets.

(24) Employee benefit expenses

	Three months ended September 30,	
	2021	2020
Wages and salaries	\$ 215,562	\$ 77,728
Share-based payment	-	-
Labor and health insurance fees	13,567	3,397
Pension costs	9,654	2,525
Other personnel expenses	30,933	6,938
	\$ 269,716	\$ 90,588
	Nine months ended September 30,	
	2021	2020
Wages and salaries	\$ 469,964	\$ 220,076
Share-based payment	12,930	-
Labor and health insurance fees	31,071	11,378
Pension costs	19,923	8,120
Other personnel expenses	64,444	19,140
	\$ 598,332	\$ 258,714

A. In accordance with Articles of Incorporation of the Company, employees' compensation and

directors' remuneration shall be calculated based on a ratio of distributable profit of the current year, after covering accumulated losses. The ratio shall not be lower than 6% for employees' compensation and shall not be higher than 1.5% for directors' remuneration.

B. For the three months and nine months ended September 30, 2021 and 2020, employees' compensation was accrued at \$15,893, \$12,135, \$49,887 and \$31,779, respectively; while directors' remuneration was accrued at \$2,445, \$1,867, \$7,675 and \$4,889, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' remuneration were estimated based on distributable profit of current period, the estimated ratios are 8.72% and 1.34%, respectively.

Employees' compensation and directors' remuneration for 2020 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2020 financial statements.

Information about the employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System".

(25) Income tax

A. Income tax expense

(a) Components of income tax expense:

		Three months ended September 30,	
		2021	2020
Current tax:			
Current tax on profits for the period	\$	32,773	\$ 26,735
Prior year income tax overestimation		-	-
Total current tax		32,773	26,735
Deferred tax:			
Origination and reversal of temporary differences	(	116)	( 17)
Total deferred tax	(	116)	( 17)
Income tax expense	\$	32,657	\$ 26,718
		Nine months ended September 30,	
		2021	2020
Current tax:			
Current tax on profits for the period	\$	105,101	\$ 60,298
Prior year income tax overestimation		-	( 6,785)
Total current tax		105,101	53,513
Deferred tax:			
Origination and reversal of temporary differences		65	4,063
Total deferred tax		65	4,063
Income tax expense	\$	105,166	\$ 57,576

(b) The income tax (charge)/credit relating to components of other comprehensive income:  
None.

(c) The income tax charged/(credited) to equity during the period: None.

B. The Company's income tax returns through 2018 have been assessed and approved by the Tax Authority.

(26) Earnings per share

Three months ended September 30, 2021			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 135,834	85,307	\$ <u>1.59</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Convertible bonds	921	2,621	
Employees' compensation	-	429	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>136,755</u>	<u>88,357</u>	\$ <u>1.55</u>
Three months ended September 30, 2020			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 103,719	80,002	\$ <u>1.30</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	415	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>103,719</u>	<u>80,417</u>	\$ <u>1.29</u>

Nine months ended September 30, 2021			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 426,382	84,359	\$ <u>5.05</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Convertible bonds	2,020	1,584	
Employees' compensation	-	533	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>428,402</u>	<u>86,476</u>	\$ <u>4.95</u>

Nine months ended September 30, 2020			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 271,614	80,002	\$ <u>3.40</u>
<u>Diluted earnings per share</u>			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	703	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>271,614</u>	<u>80,705</u>	\$ <u>3.37</u>

(27) Business combinations

- A. For the purpose of escalating the technology, improving product portfolio and expanding the scale of revenue, on July 8, 2020, the Board of Directors of the Company resolved to acquire the TCLAD segment assets and businesses from Henkel US Operations Corporation and plans to continue operating the business, through TCLAD Technology Corporation and TCLAD Inc. The above purchase agreement was approved by the CFIUS on February 12, 2021, and was executed on May 1, 2021.

- B. The following table summarises the consideration paid for TCLAD businesses and the fair values of the assets acquired at the acquisition date:

	<u>May 1, 2021</u>
Purchase consideration	
Cash paid	\$ 584,985
Fair value of the identifiable assets acquired and liabilities assumed	
Inventories	41,966
Property, plant and equipment	368,068
Intangible assets	<u>112,461</u>
Total identifiable net assets	<u>522,495</u>
Goodwill	<u>\$ 62,490</u>

- C. The fair value of the acquired identifiable intangible assets of \$112,461 (including trademarks and patents) is provisional pending receipt of the final valuations for those assets.
- D. The evaluation of the fair value of the identifiable assets is still in progress. Currently, it is recognised at the initial valuation, and the relevant acquisition price allocation will be completed within a year.

(28) Supplemental cash flow information

- A. Investing activities with partial cash payments:

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Acquisition of property, plant and equipment	\$ 129,707	\$ 27,703
Net change of payable on machinery and equipment	( 35,899)	( 1,438)
Net change of prepayments on machinery and equipment	<u>89,282</u>	<u>2,663</u>
Cash paid during the period	<u>\$ 183,090</u>	<u>\$ 28,928</u>

- B. Financing activities with no cash flow effects:

	<u>Nine months ended September 30,</u>	
	<u>2021</u>	<u>2020</u>
Convertible bonds being converted to capital stocks	<u>\$ 91,697</u>	<u>\$ -</u>

(29) Changes in liabilities from financing activities

	2021					
	Short-term borrowings	Short-term notes and bills payable	Lease liabilities	Bonds payable	Deposits-in	Total liabilities from financing activities
At January 1	\$ 327,998	\$ 70,000	\$ 206,503	\$ -	\$ 10,700	\$ 615,201
Changes in cash flow from financing activities	521,437	( 70,000)	( 7,748)	359,525	( 734)	802,480
Interest expense	-	-	2,132	3,899	-	6,031
Interest paid	-	-	( 2,132)	-	-	( 2,132)
Corporate bond issuance	-	-	-	( 16,374)	-	( 16,374)
Convertible bonds converted	-	-	-	( 91,697)	-	( 91,697)
Impact of changes in foreign exchange rate	( 8,639)	-	-	-	-	( 8,639)
At September 30	<u>\$ 840,796</u>	<u>\$ -</u>	<u>\$ 198,755</u>	<u>\$ 255,353</u>	<u>\$ 9,966</u>	<u>\$ 1,304,870</u>

  

	2020			
	Short-term borrowings	Lease liabilities	Deposits-in	Total liabilities from financing activities
At January 1	\$ 75,057	\$ 215,008	\$ 10,648	\$ 300,713
Changes in cash flow from financing activities	258,188	( 7,725)	52	250,515
Interest expense	-	2,235	-	2,235
Interest paid	-	( 2,235)	-	( 2,235)
Increase in lease liabilities	-	1,807	-	1,807
Impact of changes in foreign exchange rate	( 2,300)	-	-	( 2,300)
At September 30	<u>\$ 330,945</u>	<u>\$ 209,090</u>	<u>\$ 10,700</u>	<u>\$ 550,735</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Littelfuse, Inc.	A Board of Director of the Company

(2) Significant related party transactions and balances

A. Operating revenue

	Three months ended September 30,	
	2021	2020
Sales of goods:		
Other related parties	\$ 141,687	\$ 69,882
	Nine months ended September 30,	
	2021	2020
Sales of goods:		
Other related parties	\$ 380,003	\$ 223,071

There are no significant differences in sales prices and collection terms between related parties and third parties.

B. Accounts receivable

	September 30, 2021	December 31, 2020	September 30, 2020
Accounts receivable			
Other related parties	\$ 141,692	\$ 85,768	\$ 69,102

The receivables from related parties arise mainly from sale transactions. The receivables are due 90 days after the date of sale. The receivables are unsecured in nature and bear no interest.

(3) Key management personnel compensation

	Three month s ended September 30,	
	2021	2020
Short-term employee benefits	\$ 7,579	\$ 7,030
Post-employment benefits	349	352
	\$ 7,928	\$ 7,382
	Nine month s ended September 30,	
	2021	2020
Short-term employee benefits	\$ 42,928	\$ 38,684
Post-employment benefits	1,047	1,036
	\$ 43,975	\$ 39,720



## 8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value			Purpose
	September 30, 2021	December 31, 2020	September 30, 2020	
Time deposit (shown as "Current financial assets at amortised cost")	\$ 499,445	\$ 92,456	\$ 22,456	Guarantee for customs and bond performance guarantee and company card guarantee
Time deposit (shown as "Non-current financial assets at amortised cost")	6,881	6,881	6,882	Guarantee for land lease in science park
Buildings and investment property	193,502	196,878	198,003	Guarantee for short-term borrowing credit line

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

### (1) Contingencies

In April 2020, the Company received a service of process and related documents with respect to a civil complaint filed by Ventec Central Europe GmbH ("Ventec") with a German Court. According to the complaint, Ventec alleged that the Company was involved in the misappropriation of its trade secret for HiPot Test. It was noted that the specific testing process and detailed steps of the HiPot Test had been disclosed as early as 2009 by IPC, an international industrial organisation, in its Test Methods Manual, which has become the standard of the relevant industries. Since it has been disclosed and publicly known, such Test does not qualify as an object to be protected as a trade secret as alleged by Ventec. Moreover, other than the opinion provided by an employee of Ventec's affiliate, there is no independent opinion of any outside expert or any assessment report included in the complaint. Per the Company's assessment, such a unilateral allegation is clearly baseless. The Company had retained a German law firm to represent and defend the Company's interests, currently still under trial in the German court. Management believes that this lawsuit will have no material impact on the financial position and operations of the Company.

### (2) Commitments

Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

	September 30, 2021	December 31, 2020	September 30, 2020
Property, plant and equipment	<u>\$ 83,040</u>	<u>\$ 64,551</u>	<u>\$ 15,027</u>

## 10. SIGNIFICANT DISASTER LOSS

None.

## 11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

None.

## 12. OTHERS

### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital, issue new shares or dispose assets to reduce its liabilities.

### (2) Financial instruments

#### A. Financial instruments by category

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
<u>Financial assets</u>			
Financial assets measured at fair value through profit or loss			
Financial assets designated as at fair value through profit or loss	\$ -	\$ 84	\$ -
Financial assets at amortised cost			
Cash and cash equivalents	\$ 1,363,123	\$ 1,257,168	\$ 1,131,373
Financial assets at amortised cost	506,326	99,337	29,338
Notes receivable	221,056	155,331	114,064
Accounts receivable (including related parties)	774,434	403,539	373,957
Other receivables	19,766	8,206	12,407
Refundable deposits	3,506	3,449	3,389
	<u>\$ 2,888,211</u>	<u>\$ 1,927,030</u>	<u>\$ 1,664,528</u>

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
<u>Financial liabilities</u>			
Financial liabilities			
measured at fair value			
through profit or loss			
Financial liabilities			
designated as at fair value			
through profit or loss	\$ -	\$ -	\$ 84
Financial liabilities at			
amortised cost			
Short-term borrowings	\$ 840,796	\$ 327,998	\$ 330,945
Short-term notes and bills payable	-	70,000	-
Notes payable	51,329	32,591	26,736
Accounts payable	280,921	179,883	120,378
Other payables	381,058	257,050	186,560
Bond payable			
(including current portion)	255,353	-	-
Deposits-in	9,966	10,700	10,700
	<u>\$ 1,819,423</u>	<u>\$ 878,222</u>	<u>\$ 675,319</u>
Lease liabilities	<u>\$ 198,755</u>	<u>\$ 206,503</u>	<u>\$ 209,090</u>

#### B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk, and interest rate swaps are used to fix variable future cash flows. Derivatives are used exclusively for hedging purposes and not as trading or speculative instruments.
- (b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.
- (c) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

## C. Significant financial risks and degrees of financial risks

### (a) Market risk

#### Foreign exchange risk

- i. The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries using various functional currencies, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policies to require group companies to manage their foreign exchange risk against their functional currencies. The companies are required to hedge their entire foreign exchange risk exposure through coordination with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Foreign exchange forward contracts are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Group hedges foreign exchange risk by using foreign exchange forward contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2021					
Foreign currency					
	amount		Exchange		Book value
	(in thousands)		rate		(NTD)
(Foreign currency: functional currency)					
<u>Financial assets</u>					
<u>Monetary items</u>					
USD:NTD	USD	32,823	27.85	\$	914,121
USD:RMB	USD	451	6.4626		12,546
RMB:NTD	RMB	125	4.305		538
<u>Non-monetary items:</u> None.					
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD:NTD	USD	378	27.85	\$	10,524
JPY:NTD	JPY	5,570	0.2490		1,387
<u>Non-monetary items:</u> None.					

December 31, 2020				
Foreign currency				
	amount		Exchange	Book value
	(in thousands)		rate	(NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	USD	9,624	28.48	\$ 274,103
USD:RMB	USD	531	6.5398	15,185
RMB:NTD	RMB	152	4.377	664
<u>Non-monetary items:</u> None.				
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	USD	267	28.48	\$ 7,616
JPY:NTD	JPY	10,175	0.2763	2,811
<u>Non-monetary items:</u> None.				

September 30, 2020				
Foreign currency				
	amount		Exchange	Book value
	(in thousands)		rate	(NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	USD	8,926	29.100	\$ 259,754
USD:RMB	USD	212	6.8106	6,159
RMB:NTD	RMB	288	4.269	1,228
<u>Non-monetary items:</u> None.				
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	USD	177	29.100	\$ 5,138
USD:RMB	USD	86	6.8106	2,495
<u>Non-monetary items:</u> None.				

- v. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variations on the monetary items held by the Group for the three months and nine months ended September 30, 2021 and 2020, amounted to (\$6,434), (\$2,263), (\$14,856) and (\$2,977), respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variations:

Nine months ended September 30, 2021			
Sensitivity analysis			
	Degree of variation	Effect on profit (loss)	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 9,141	\$ -
USD:RMB	1%	125	-
RMB:NTD	1%	5	-
<u>Non-monetary items:</u> None.			
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 105)	\$ -
JPY:NTD	1%	( 14)	-
<u>Non-monetary items:</u> None.			

Nine months ended September 30, 2020			
Sensitivity analysis			
	Degree of variation	Effect on profit (loss)	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 2,598	\$ -
USD:RMB	1%	62	-
RMB:NTD	1%	12	-
<u>Non-monetary items:</u> None.			
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1%	(\$ 51)	\$ -
USD:RMB	1%	( 25)	-
<u>Non-monetary items:</u> None.			

#### Price risk

The Group's investments in equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in

accordance with the limits set by the Group.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income.
- ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- iv. The Group adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:  
If the contract payments were past due over 60 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- v. If the credit rating grade of an investment target degrades two scales, there has been a significant increase in credit risk on that instrument since initial recognition.
- vi. The Group classifies customers' accounts receivable, contract assets and rents receivable in accordance with customer types. The Group applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.
- vii. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
  - (i) It becomes probable that the issuer will enter into bankruptcy or other financial reorganisation due to financial difficulties;
  - (ii) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
  - (iii) Default or delinquency in interest or principal repayments;
  - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

viii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. As of September 30, 2021, December 31, 2020 and September 30, 2020, the provision matrix is as follows:

	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Over 180 days	Total
<u>At September 30, 2021</u>						
Expected loss rate	0.01%	0.35%~0.82%	2.50%~18.44%	15.09%~21.47%	80.18%~100%	
Total book value	\$ 743,254	\$ 30,681	\$ 3,385	\$ 90	\$ 15,179	\$ 792,589
Loss allowance	\$ -	\$ -	\$ 2,886	\$ 90	\$ 15,179	\$ 18,155
	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Over 180 days	Total
<u>At December 31, 2020</u>						
Expected loss rate	0.01%	0.38%~0.89%	2.72%~20.14%	16.00%~23.43%	64.80%~100%	
Total book value	\$ 383,607	\$ 19,041	\$ 1,730	\$ 4,766	\$ 15,278	\$ 424,422
Loss allowance	\$ -	\$ 818	\$ 28	\$ 4,766	\$ 15,271	\$ 20,883
	Not past due	Up to 30 days past due	31~90 days past due	91~180 days past due	Over 180 days	Total
<u>At September 30, 2020</u>						
Expected loss rate	0.01%	0.4%~0.92%	2.81%~20.81%	16.38%~24.21%	64.33%~100%	
Total book value	\$ 340,416	\$ 20,449	\$ 9,142	\$ 8,821	\$ 3,507	\$ 382,335
Loss allowance	\$ -	\$ -	\$ 614	\$ 4,257	\$ 3,507	\$ 8,378

ix. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable and notes receivable is as follows:

	2021	
	Accounts receivable	Notes receivable
At January 1	\$ 20,883	\$ -
Reversal of impairment loss	( 2,534)	-
Effect of foreign exchange	( 194)	-
At September 30	<u>\$ 18,155</u>	<u>\$ -</u>
	2020	
	Accounts receivable	Notes receivable
At January 1	\$ 1,428	\$ -
Provision for impairment loss	6,949	-
Effect of foreign exchange	1	-
At September 30	<u>\$ 8,378</u>	<u>\$ -</u>

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining



sufficient headroom on its undrawn borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements, for example, currency restrictions.

ii. The Group has the following undrawn borrowing facilities:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>	<u>September 30, 2020</u>
Floating rate:			
Expiring within one year	\$ <u>904,641</u>	\$ <u>1,390,628</u>	\$ <u>1,389,329</u>

The facilities expiring within one year are annual facilities subject to review and renegotiation at various dates during 2022 and 2021.

iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

		Between 3			
	Less than 3	months	Between 1	Between 2	Over 5
September 30, 2021	months	and 1 year	and 2 years	and 5 years	years
Short-term borrowings	\$ 434,356	\$ 406,440	\$ -	\$ -	\$ -
Notes payable	51,359	-	-	-	-
Accounts payable	253,524	27,397	-	-	-
Lease liabilities	3,120	9,229	10,013	20,532	211,733
Other payables	-	381,058	-	-	-
Bonds payable	-	-	-	264,700	-
Deposits-in	-	9,966	-	-	-

Non-derivative financial liabilities:

		Between 3			
	Less than 3	months	Between 1	Between 2	Over 5
December 31, 2020	months	and 1 year	and 2 years	and 5 years	years
Short-term borrowings	\$ 256,960	\$ 71,038	\$ -	\$ -	\$ -
Short-term notes and bills payable	70,000	-	-	-	-
Notes payable	113	-	-	-	-
Accounts payable	-	179,883	-	-	-
Lease liabilities	3,328	9,706	12,171	22,625	216,711
Other payables	-	257,050	-	-	-
Deposits-in	-	10,700	-	-	-

Non-derivative financial liabilities:

		Between 3			
	Less than 3	months	Between 1	Between 2	Over 5
September 30, 2020	months	and 1 year	and 2 years	and 5 years	years
Short-term borrowings	\$ 58,200	\$ 272,745	\$ -	\$ -	\$ -
Notes payable	454	-	-	-	-
Accounts payable	-	120,378	-	-	-
Lease liabilities	3,328	9,913	12,305	23,952	218,370
Other payables	-	186,560	-	-	-
Deposits-in	-	10,700	-	-	-

Derivative financial liabilities:

September 30, 2021: None.

December 31, 2020: None.

		Between 3			
	Less than 3	months	Between 1	Between 2	Over 5
September 30, 2020	months	and 1 year	and 2 years	and 5 years	years
Foreign exchange contracts	\$ 84	\$ -	\$ -	\$ -	\$ -

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

B. Financial instruments not measured at fair value

- (a) Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

	September 30, 2021			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Financial liabilities:				
Bonds payable	\$ 255,353	\$ -	\$ 255,171	\$ -

December 31, 2020: None.

September 30, 2020: None.

- (b) The methods and assumptions of fair value estimate are as follows:

Bonds payable: The fair value of the convertible bonds which were issued by the Group was estimated using Binomial-Tree approach.

- C. The related information on financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

September 30, 2021: None.

December 31, 2020

**Assets:**

<u>Recurring fair value measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss-foreign exchange forward contracts	\$ -	\$ 84	\$ -	\$ 84

**Liabilities: None.**

September 30, 2020

**Assets: None.**

**Liabilities:**

<u>Recurring fair value measurement</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at fair value through profit or loss-foreign exchange forward contracts	\$ -	\$ 84	\$ -	\$ 84

- D. The methods and assumptions the Group used to measure fair value are as follows:

- (a) The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Foreign exchange forward contracts are usually valued based on the current forward exchange rate.

(b) Under the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the Group makes self-assessment using the income approach to calculate the fair value of investment property. Related assumptions and information on inputs are as follows:

- i. Cash flow: Cash flow shall be evaluated on the basis of existing lease contracts, rent at local market rates, or current market rents for similar comparable properties in the same location and condition, and overvalued and undervalued comparable properties shall be excluded. If there is a period-end value, the discounted present period-end value may be added.
- ii. Analysis period: When there is no specified period for the income, the analysis period in principle shall not be longer than 10 years; when there is a specified period for the income, the income shall be estimated for the remainder of the specified period.
- iii. Discount rate: The discount rate shall be determined using the risk premium approach only, with the calculation based on a certain interest rate, plus the estimate for the individual characteristics of the investment property. The phrase "certain interest rate" means the interest rate may not be lower than the floating interest rate on a 2-year time deposit of a small amount, as posted by the Chunghwa Post Co. Ltd., plus 0.75 percentage points.

(c) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group’s financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Group’s management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the consolidated balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

(d) The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group’s credit quality.

E. For the nine months ended September 30, 2021 and 2020, there was no transfer between Level 1 and Level 2.

#### (4) Others

Due to the impact of COVID-19, the Company’s significant subsidiary, Polystar Electronics Co., Ltd. which is located in Kunshan City, China, suspended its production lines for the period from late January 2020 to mid-February 2020 in line with the local governmental regulations. However, the subsidiary resumed its production on February 17, 2020, after receiving the approval from the

local government and gradually restored its production capacity and operations. Further, following the utility restriction policies of Jiangsu Province government in September, the Company's subsidiary suspended and rotated its production lines and coordinated its inventory stock level to fulfill customers' commitments through the end of September 2021. Based on the Company's assessment on the operations and financial information of the Group, the COVID-19 pandemic has no material impact on the Group's ability to continue as a going concern, impairment on assets and financing risks.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 4.
- I. Trading in derivative instruments undertaken during the reporting period: Please refer to Notes 6(2) and 12.
- J. Significant inter-company transactions during the reporting period: Please refer to table 5.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 6.

#### (3) Information on investments in mainland China

- A. Basic information: Please refer to table 7.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the mainland Area: Please refer to table 8.

#### (4) Major shareholders information

Major shareholders information: Please refer to table 9.

### 14. SEGMENT INFORMATION

#### (1) General information

The Group mainly operates in a single industry. The Chief Operating Decision-Maker reviews the Group's reporting to assess performance and allocate resources. The Group mainly has only one

reportable segment.

(2) Segment information

The Group's Chief Operating Decision-Maker evaluates the performance of the operating segment based on the consolidated financial statements. The accounting policies of the operating segment are in line with the significant accounting policies summarised in Note 4.

(3) Information about segment profit or loss, assets and liabilities

	Nine months ended September 30,	
	2021	2020
Revenue from external customers	\$ 2,319,079	\$ 1,242,436
Inter-segment revenue	\$ -	\$ -
Segment income	\$ 497,204	\$ 329,190
Segment assets	\$ 5,449,286	\$ 3,081,729

(4) Reconciliation for segment income (loss), assets and liabilities

None.

## Polytronics Technology Corp. and Subsidiaries

Loans to others  
Nine months ended September 30, 2021

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended September 30, 2021	Balance at September 30, 2021	Actual amount drawn down	Interest rate	Nature of loan	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party (Note)	Ceiling on total loans granted (Note)
													Item	Value		
0	Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	Other receivables - related party	Y	\$ 87,680	\$ 86,100	\$ -	4.35%	Reason for short-term financing	\$ -	Operational need	\$ -	-	\$ -	\$ 549,388	\$ 1,098,776
0	Polytronics Technology Corp.	TCLAD Technology Corporation	Other receivables - related party	Y	114,140	111,440	-	0.825%	Reason for short-term financing	-	Operational need	-	-	-	549,388	1,098,776
0	Polytronics Technology Corp.	TCLAD Inc.	Other receivables - related party	Y	14,268	13,925	-	0.825%	Reason for short-term financing	-	Operational need	-	-	-	549,388	1,098,776
1	TCLAD Technology Corporation	TCLAD Inc.	Other receivables - related party	Y	428,025	417,750	417,750	2.62%	Reason for short-term financing	-	Operational need	-	-	-	1,098,776	1,098,776
1	TCLAD Technology Corporation	TCLAD Europe GmbH	Other receivables - related party	Y	27,960	27,850	13,925	1.75%	Reason for short-term financing	-	Operational need	-	-	-	1,098,776	1,098,776

Note : Follow the group policy “Procedure for Provision of Loans”.

Polytronics Technology Corp. and Subsidiaries  
Provision of endorsements and guarantees to others  
Nine months ended September 30, 2021

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party	Maximum outstanding endorsement/ guarantee amount as of September 30, 2021	Outstanding endorsement/ guarantee amount at September 30, 2021	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note)	Provision of endorsements/ guarantees by parent company to subsidiary (Note)	Provision of endorsements /guarantees by subsidiary to parent company (Note)	Provision of endorsements/ guarantees to the party in mainland China (Note)
		Company name	Relationship with the endorser/ guarantor										
0	Polytronics Technology Corp.	Polytronics (B.V.I.) Corporation	100%, owned subsidiary	\$ 2,746,941	\$ 107,070	\$ 105,700	\$ -	\$ -	3.85	\$ 4,120,411	Y	N	N
0	Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	100%, owned subsidiary	2,746,941	191,478	190,655	69,625	-	6.94	4,120,411	Y	N	Y
0	Polytronics Technology Corp.	TCLAD Technology Corporation	A subsidiary which had 56.27% equity interests directly owned by the Company	2,746,941	784,840	267,100	-	-	9.72	4,120,411	Y	N	N
0	Polytronics Technology Corp.	TCLAD Inc.	A subsidiary which had 56.27% equity interests indirectly owned by the Company	2,746,941	14,268	13,925	13,925	-	0.51	4,120,411	Y	N	N

Note : Follow the company policy “Procedure for Provision of Endorsements and Guarantees to Others”.

Table 2



Polytronics Technology Corp. and Subsidiaries

Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more

Nine months ended September 30, 2021

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction					Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)		
Polytronics Technology Corp.	Liffelfuse, Inc.	Director of the Company	Sales	(\$ 380,003)	16%	Net 90 days	Note	Note	\$ 141,692	14%		
Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	Subsidiary	Sales	( 330,271)	14%	Net 60 days	Note	Note	84,235	8%		

Note : With the general payment term.

Polytronics Technology Corp. and Subsidiaries  
 Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
 September 30, 2021

Table 4

Expressed in thousands of NTD  
 (Except as otherwise indicated)

Creditor	Counterparty	Relationship with the counterparty	Balance as at September 30, 2021	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
Polytronics Technology Corp.	Liffelfuse, Inc.	Director of the Company	\$ 141,692	4.46	\$ -	Not applicable	\$ 52,965	\$ -

Table 4

Polytronics Technology Corp. and Subsidiaries  
Significant inter-company transactions during the reporting period  
Ninie months ended September 30, 2021

Table 5

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets
				General ledger account	Amount	Transaction terms	
0	Polytronics Technology Corp.	Kunshan Polystar Electronics Co., Ltd.	1	Sales	\$ 330,271	Net 60 days	14%
0	"	"	1	Purchases	57,806	Net 45 days	2%
0	"	"	1	Processing charges	60,498	"	3%
0	"	"	1	Accounts receivable	84,235	Net 60 days	2%
0	"	"	1	Accounts payable	76,035	Net 45 days	1%
0	"	TCLAD Technology Corporation	1	Other receivables	34,081	Collection and payment based on an agreed time	1%
1	TCLAD Technology Corporation	TCLAD Inc.	3	Other receivables	605,848	"	11%
1	"	"	3	Purchases	97,297	Net 30 days	4%
1	"	"	3	Accounts payable	40,270	Net 30 days	1%
1	"	TCLAD Europe GmbH	3	Other receivables	14,182	Collection and payment based on an agreed time	0%
1	"	"	3	Accounts receivable	9,055	Net 30 days	0%
2	TCLAD Inc.	TCLAD Europe GmbH	3	Sales	49,837	Net 30 days	2%
2	"	"	3	Accounts receivable	49,471	Net 30 days	1%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following six categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

## Polytronics Technology Corp. and Subsidiaries

## Information on investees

Nine months ended September 30, 2021

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2021			Net profit (loss) of the investee for the nine months ended September 30, 2021	Investment income (loss) recognised by the Company for the nine months ended September 30, 2021	Footnote
				Balance as at September 30, 2021	Balance as at December 31, 2020	Number of shares	Ownership (%)	Book value			
Polytronics Technology Corp.	Polytronics (B.V.I.) Corporation	British Virgin Islands	Investment and general business operations	\$ 255,004	\$ 255,004	2,644	100	\$ 980,858	\$ 117,519	\$ 117,519	Subsidiary
Polytronics Technology Corp.	TCLAD Technology Corporation	Taiwan	Manufacturing of the thermal conductive board	759,690	9,000	16,882	56.27	703,140 (	79,005) (	44,757)	Subsidiary
TCLAD Technology Corporation	TCLAD Inc.	America	Manufacturing of the thermal conductive board	455,173	-	500	100	420,894 (	24,889) (	24,889)	Subsidiary
TCLAD Technology Corporation	TCLAD Eurpoe GmbH	Germany	Manufacturing of the thermal conductive board	5,732	-	-	85	4,974 (	636) (	541)	Subsidiary

Table 6

Polytronics Technology Corp. and Subsidiaries  
Information on investments in Mainland China  
Nine months ended September 30, 2021

Table 7

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to mainland China as of January 1, 2021 (Note 2)	Amount remitted from Taiwan to mainland China/ amount remitted back to Taiwan for the nine-month period ended September 30, 2021		Accumulated amount of remittance from Taiwan to mainland China as of September 30, 2021	Net income of investee for the nine months ended September 30, 2021	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the nine months ended September 30, 2021 (Note 3)	Book value of investments in mainland China as of September 30, 2021	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2021	Footnote
					Remitted to mainland China	Remitted back to Taiwan							
Kunshan Polystar Electronics Co., Ltd. (Note 2)	Production and sale of varistor and potentiometer	\$ 655,612	2	\$ 179,911	\$ -	\$ -	\$ 179,911	\$ 117,634	100	\$ 117,634	\$ 967,044	\$ -	
Polystellar Electronics Co., Ltd.	Production and sale of resistors, discrete semiconductor devices and other resistive elements	86,188	3	-	-	-	-	283	100	283	86,848	-	
Company name	Accumulated amount of remittance from Taiwan to mainland China as of September 30, 2021	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in mainland China imposed by the Investment Commission of MOEA										
Polytronics Technology Corp.	\$ 179,911	\$ 655,612	\$ 1,648,164										

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:  
(1) Directly invest in a company in mainland China.  
(2) Through investing in an existing company in the third area, which then invested in the investee in mainland China.  
(3) Others

Note 2: Including retained earnings capitalized of RMB\$89,286 and RMB\$16,964 (In thousands of dollars).

Note 3: Investment income (loss) were recognized based on the financial statements reviewed by R.O.C. parent company's CPA.

Note 4: Under the ‘Regulations Governing the Permission of Investment or Technical Cooperation in mainland Area’, amendment to Jing-Shen-Zi No. 09704604680 of Ministry of Economic Affairs, effective August 2008, ceiling of accumulated investment in mainland China may not exceed 60% of the net assets and the ceiling is effective from August 1.

Note 5: Mainland China’s investees information are translated using the exchange rates of USD:NTD = 1:28.056 and RMB:TWD = 1:4.337 for recognised investmentincome (loss) and remaining using the exchangerates ofUSD:NTD=1:27.850 and RMB:TWD = 1:4.309.

Polytronics Technology Corp. and Subsidiaries

Significant transactions conducted with investees in mainland China directly or indirectly through other companies in the third areas

Nine months ended September 30, 2021

Table 8

Expressed in thousands of NTD

(Except as otherwise indicated)

Investee in mainland China	Sale (purchase)		Accounts receivable (payable)		Maximum balance during the nine months ended September 30, 2021	Financing		Interest during the nine months ended September 30, 2021	Others-processing charges	
	Amount	%	Balance at September 30, 2021	%		Balance at September 30, 2021	Interest rate		Balance at September 30, 2021	%
Kunshan Polystar Electronics Co., Ltd.	\$ 330,271	14.24%	\$ 84,235	10.88%	\$ 87,680	\$ 86,100	4.35%	\$ -	\$ 60,498	27.72%
Kunshan Polystar Electronics Co., Ltd.	( 57,806)	9.72%	( 76,035)	27.07%	-	-	-	-	-	-

Table 8

Polytronics Technology Corp. and Subsidiaries

Major shareholders information

September 30, 2021

Table 9

Name of major shareholders	Shares	
	Number of shares held	Ownership (%)
Everlight Chemical Industrial Corp.	8,375,991	9.77%
Littlefuse Europe Gmbh	4,600,350	5.37%

Table 9