

English Translation of Consolidated Financial Statements and An Auditors' Report Originally Issued in Chinese

**PIXART IMAGING INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT AUDITORS
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

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

REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2020 and for the year then ended prepared under the International Financial Reporting Standards No.10 are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as “Combined Financial Statements”). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

PixArt Imaging Inc.

Chairman: Sen-Huang Huang

March 19, 2021

Independent Auditors' Report Translated from Chinese

To PixArt Imaging Inc.

Opinion

We have audited the accompanying consolidated balance sheets of PixArt Imaging Inc. and its subsidiaries (the “Group”) as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2020 and 2019, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PixArt Imaging Inc. and its subsidiaries as of December 31, 2020 and 2019, and their consolidated financial performance and cash flows for the years ended December 31, 2020 and 2019, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2020 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory Valuation

The Group had net inventory of NT\$769,456 thousand as of December 31, 2020. The amount was significant to the consolidated financial statements. Due to the uncertainty arising from rapid change of technology and the market environment where the business of the Group is in, the valuation of the allowance for excess and obsolete inventories requires significant management judgement. As a result, we determined the matter as a key audit matter.

Our audit procedures include (but are not limited to): assessing the appropriateness of the accounting policies regarding excess and obsolete inventories; evaluating and testing the design and operating effectiveness of internal controls over inventories valuation; testing the appropriateness of management's determination of inventory losses, including evaluating the reasonableness of inventory reserve percentages and testing the accuracy of inventory aging; observing the year-end inventory count to evaluate the excess and obsolete status of physical inventory; and evaluating and testing the net realizable value of inventories estimated by management.

We also considered the appropriateness of the disclosures of inventories. Please refer to Notes 4, 5 and 6 to consolidated financial statements.

Revenue Recognition

The Group recognized NT\$8,148,017 thousand as operating revenues for the year ended December 31, 2020, which mainly stemmed from the sale of CMOS image sensors. Since the various trade terms, it is more complicated to judge and determine the timing when the performance obligations are satisfied. As a result, we determined the matter as a key audit matter.

Our audit procedures include (but are not limited to): assessing the appropriateness of the accounting policies regarding revenue recognition; evaluating and testing the design and operating effectiveness of internal control over revenue recognition; performing test of details on a sampling basis by reviewing the key conditions and trade terms of sales contracts or client purchase orders and tracing to the shipping documents and delivery notes signed by clients to verify the appropriateness of transaction prices and timing of revenue recognition; performing cut-off testing by selecting transactions before and after a certain period of the balance sheet date to verify the appropriateness of timing of revenue recognition by vouching to transaction documentation.

We also considered the appropriateness of disclosures of revenue. Please refer to Notes 4 and 6(16) to the consolidated financial statements.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of PixArt Imaging Inc. and its subsidiaries.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of PixArt Imaging Inc. and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PixArt Imaging Inc. and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within PixArt Imaging Inc. and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2020 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of PixArt Imaging Inc. as of and for the years ended December 31, 2020 and 2019.

Kuo, Shao-Pin

Chiu, Wan-Ju

Ernst & Young

CERTIFIED PUBLIC ACCOUNTANTS

March 19, 2021

Taipei, Taiwan

Republic of China

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in 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, Ernst & Young cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

PixArt Imaging Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

As of December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2020	December 31, 2019
Current assets			
Cash and cash equivalents	4, 6(1)	\$ 4,292,172	\$ 4,719,575
Financial assets at fair value through profit or loss, current	4, 6(2)	15,581	18,627
Financial assets at fair value through other comprehensive income, current	4, 6(3)	754,400	263,200
Trade receivables, net	4, 6(4), 6(17)	1,455,523	787,157
Other receivables	6(17)	35,985	43,872
Inventories	4, 6(5)	769,456	677,510
Prepayments		64,778	80,645
Other current assets		-	414
Total current assets		7,387,895	6,591,000
Non-current assets			
Financial assets at fair value through profit or loss, non-current	4, 6(2)	14,050	-
Financial assets at fair value through other comprehensive income, non-current	4, 6(3)	1,770,298	1,186,741
Investments accounted for using the equity method	4, 6(6)	40,228	43,939
Property, plant and equipment	4, 6(7)	681,678	510,125
Right-of-use assets	4, 6(18)	184,514	201,670
Investment property, net	4, 6(8)	187,231	197,935
Intangible assets	4, 6(9)	304,841	136,835
Deferred tax assets	4, 6(22)	141,095	151,006
Other non-current assets	6(10)	161,564	115,290
Refundable deposits		10,028	5,737
Other financial assets, non-current	6(11), 8	997,199	14,131
Total non-current assets		4,492,726	2,563,409
Total assets		\$ 11,880,621	\$ 9,154,409

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

PixArt Imaging Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

As of December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

Liabilities and equity	Notes	December 31, 2020	December 31, 2019
Current liabilities			
Short-term borrowings	6(12)	\$ 415,300	\$ -
Contract liabilities, current	6(16)	16,951	3,437
Trade payables		559,943	450,536
Other payables	6(19)	1,080,957	833,603
Current tax liabilities	6(22)	267,638	120,147
Lease liabilities, current	4, 6(18)	21,253	20,652
Other current liabilities		18,993	50,311
Total current liabilities		<u>2,381,035</u>	<u>1,478,686</u>
Non-current liabilities			
Deferred tax liabilities	6(22)	367,700	456,381
Lease liabilities, non-current	4, 6(18)	166,741	182,977
Net defined benefit liabilities, non-current	4, 6(13)	21,135	21,000
Deposits received		6,524	5,276
Total non-current liabilities		<u>562,100</u>	<u>665,634</u>
Total liabilities		<u>2,943,135</u>	<u>2,144,320</u>
Equity attributable to owners of the parent			
Share capital	6(14)		
Common stock		1,415,545	1,373,837
Capital collected in advance		235	4,303
Capital surplus	6(14), 6(15), 6(24)	2,399,862	1,926,401
Retained earnings	6(14), 6(24)		
Legal reserve		1,187,926	1,104,139
Special reserve		256,064	375,769
Undistributed earnings		3,198,978	2,364,369
Other equity	4, 6(14)	457,765	(181,938)
Equity attributable to owners of the parent		<u>8,916,375</u>	<u>6,966,880</u>
Non-controlling interests	4, 6(14)	21,111	43,209
Total equity		<u>8,937,486</u>	<u>7,010,089</u>
Total liabilities and equity		<u>\$ 11,880,621</u>	<u>\$ 9,154,409</u>

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

PixArt Imaging Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2020 and 2019

(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

Description	Notes	2020	2019
Operating revenues	4, 6(16)	\$ 8,148,017	\$ 6,075,020
Operating costs	6(5), 6(19)	(3,429,657)	(2,560,261)
Gross profit		4,718,360	3,514,759
Operating expenses	6(17), 6(19)		
Selling expenses		(373,204)	(348,088)
Administrative expenses		(573,174)	(566,655)
Research and development expenses		(1,922,977)	(1,637,598)
Expected credit losses		(10,505)	(964)
Total operating expenses		(2,879,860)	(2,553,305)
Operating income		1,838,500	961,454
Non-operating income and expenses			
Interest income	6(20)	45,119	76,916
Other income	6(20)	33,711	38,178
Other gains and losses	6(20)	(153,202)	(30,970)
Finance costs	6(20)	(5,568)	(5,359)
Expected credit losses	6(17)	-	(985)
Share of profit or loss of associates and joint ventures accounted for using the equity method	4, 6(6)	18,168	(204)
Total non-operating income and expenses		(61,772)	77,576
Income before income tax		1,776,728	1,039,030
Income tax expense	4, 6(22)	(338,083)	(208,709)
Net income		1,438,645	830,321
Other comprehensive income	6(21), 6(22)		
Not to be reclassified to profit or loss in subsequent periods			
Remeasurements of the defined benefit plan		(566)	5,951
Unrealized gains or losses on investments in equity instruments at fair value through other comprehensive income		1,004,084	304,106
Income tax relating to those items not to be reclassified to profit or loss		113	(1,190)
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations		(77,297)	(36,803)
Income tax relating to those items to be reclassified to profit or loss		15,459	7,361
Other comprehensive income (loss), net of income tax		941,793	279,425
Total comprehensive income		\$ 2,380,438	\$ 1,109,746
Net income (loss) attributable to :			
Owners of the parent		\$ 1,456,606	\$ 835,586
Non-controlling interests		(17,961)	(5,265)
		\$ 1,438,645	\$ 830,321
Total comprehensive income (loss) attributable to :			
Owners of the parent		\$ 2,398,399	\$ 1,115,011
Non-controlling interests		(17,961)	(5,265)
		\$ 2,380,438	\$ 1,109,746
Earnings per share (NT\$)			
Basic earnings per share	4, 6(23)	\$ 10.60	\$ 6.23
Diluted earnings per share	4, 6(23)	\$ 10.25	\$ 6.01

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

PixArt Imaging Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2020 and 2019

(Expressed in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent											Non-controlling interests	Total equity
	Share capital			Retained earnings			Other equity			Treasury stock	Equity attributable to owners of the parent		
	Common stock	Capital colleceed in aduance	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences resulting from translating the financial statements of foreign operations	Employee unearned reward	Unrealized gains (losses) from financial assets at fair value through other comprehensive income				
Balance as of January 1, 2019	\$ 1,358,727	\$ -	\$ 1,789,829	\$ 1,018,303	\$ 237,846	\$ 2,472,571	\$ (226,622)	\$ (194,740)	\$ (149,147)	\$ (38,200)	\$ 6,268,567	\$ 12,509	\$ 6,281,076
Appropriation and distribution of 2018 earnings:													
Legal reserve	-	-	-	85,836	-	(85,836)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	137,923	(137,923)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(722,312)	-	-	-	-	(722,312)	-	(722,312)
Net income (loss) for the year ended December 31, 2019	-	-	-	-	-	835,586	-	-	-	-	835,586	(5,265)	830,321
Other comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	4,761	(29,442)	-	304,106	-	279,425	-	279,425
Total comprehensive income (loss)	-	-	-	-	-	840,347	(29,442)	-	304,106	-	1,115,011	(5,265)	1,109,746
Share-based payment transactions	14,927	4,303	122,363	-	-	-	-	-	-	38,200	179,793	236	180,029
Restricted shares for employees	183	-	6,038	-	-	-	-	117,101	-	-	123,322	21	123,343
Changes in ownership interests in subsidiaries	-	-	8,171	-	-	(5,672)	-	-	-	-	2,499	35,708	38,207
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	3,194	-	-	(3,194)	-	-	-	-
Balance as of December 31, 2019	\$ 1,373,837	\$ 4,303	\$ 1,926,401	\$ 1,104,139	\$ 375,769	\$ 2,364,369	\$ (256,064)	\$ (77,639)	\$ 151,765	\$ -	\$ 6,966,880	\$ 43,209	\$ 7,010,089
Balance as of January 1, 2020	\$ 1,373,837	\$ 4,303	\$ 1,926,401	\$ 1,104,139	\$ 375,769	\$ 2,364,369	\$ (256,064)	\$ (77,639)	\$ 151,765	\$ -	\$ 6,966,880	\$ 43,209	\$ 7,010,089
Appropriation and distribution of 2019 earnings:													
Legal reserve	-	-	-	83,787	-	(83,787)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(119,705)	119,705	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(715,298)	-	-	-	-	(715,298)	-	(715,298)
Net income (loss) for the year ended December 31, 2020	-	-	-	-	-	1,456,606	-	-	-	-	1,456,606	(17,961)	1,438,645
Other comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	-	(453)	(61,838)	-	1,004,084	-	941,793	-	941,793
Total comprehensive income (loss)	-	-	-	-	-	1,456,153	(61,838)	-	1,004,084	-	2,398,399	(17,961)	2,380,438
Share-based payment transactions	18,264	(4,068)	114,718	-	-	-	-	-	-	-	128,914	32	128,946
Restricted shares for employees	23,444	-	358,743	-	-	-	-	(244,303)	-	-	137,884	(4)	137,880
Acquisition of interests in subsidiaries	-	-	-	-	-	(404)	-	-	-	-	(404)	(2,014)	(2,418)
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	58,240	-	-	(58,240)	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,151)	(2,151)
Balance as of December 31, 2020	\$ 1,415,545	\$ 235	\$ 2,399,862	\$ 1,187,926	\$ 256,064	\$ 3,198,978	\$ (317,902)	\$ (321,942)	\$ 1,097,609	\$ -	\$ 8,916,375	\$ 21,111	\$ 8,937,486

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

PixArt Imaging Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

Description	2020	2019	Description	2020	2019
Cash flows from operating activities:			Cash flows from investing activities :		
Income before income tax	\$ 1,776,728	\$ 1,039,030	Acquisition of financial assets at fair value through other comprehensive income	\$ (186,547)	\$ (136,761)
Adjustments for:			Proceeds from disposal of financial assets at fair value through other comprehensive income	113,430	15,456
The profit or loss items which did not affect cash flows:			Proceeds from return of capital of financial assets at fair value through other comprehensive income	-	1,875
Depreciation	89,106	70,552	Acquisition of financial assets at fair value through profit or loss	(14,644)	-
Amortization	268,886	253,109	Proceeds from disposal of financial assets at fair value through profit or loss	3,106	-
Expected credit losses	10,505	1,949	Acquisition of property, plant and equipment	(93,746)	(78,918)
Losses (gains) on financial assets and liabilities at fair value through profit or loss, net	534	(88)	Increase in refundable deposits	(4,291)	(1,241)
Interest expenses	5,568	5,359	Acquisition of intangible assets	(315,877)	(97,701)
Interest income	(45,119)	(76,916)	Acquisition of investment property	(137,860)	-
Dividend income	(23,774)	(22,294)	Increase in other financial assets	(983,068)	(2,042)
Share-based payment expenses	165,487	191,400	Increase in other non-current assets	(142,409)	(79,600)
Share of profit or loss of associates and joint ventures accounted for using the equity method	(18,168)	204	Increase in prepayment for equipment	(27,800)	-
Losses on disposal of property, plant and equipment	25	-	Net cash used in investing activities	(1,789,706)	(378,932)
Impairment losses on financial assets	19,146	-			
Unrealized gains on foreign exchange	(1,965)	-			
Changes in operating assets and liabilities:					
Trade receivables	(678,825)	(58,934)			
Other receivables	(1,633)	(14,067)			
Inventories	(91,753)	(62,695)	Cash flows from financing activities:		
Prepayments	(583)	(14,703)	Increase in short-term borrowings	417,265	-
Other current assets	414	464	Increase (decrease) in deposits received	1,248	(124)
Contract liabilities	13,514	2,040	Repayment of the principal of lease liabilities	(24,059)	(20,754)
Trade payables	109,407	152,251	Cash dividends	(715,298)	(722,312)
Other payables	272,023	90,651	Proceeds from exercise of employee stock options	101,339	73,190
Other current liabilities	(31,318)	37,849	Treasury stock sold to employees	-	38,782
Net defined benefit liabilities, non-current	(431)	(229)	Acquisition of interests in subsidiaries	(2,418)	-
Cash generated from operating activities	1,837,774	1,594,932	Changes in non-controlling interests	(2,151)	38,207
Interest received	54,619	82,980	Net cash use in financing activities	(224,074)	(593,011)
Dividend received	23,774	22,294	Effect of changes in exchange rate on cash and cash equivalents	(70,610)	(34,783)
Interest paid	(5,410)	(5,359)	(Decrease) increase in cash and cash equivalents	(427,403)	580,793
Income tax paid	(253,770)	(107,328)	Cash and cash equivalents at the beginning of the year	4,719,575	4,138,782
Net cash provided by operating activities	1,656,987	1,587,519	Cash and cash equivalents at the end of the year	\$ 4,292,172	\$ 4,719,575

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

PIXART IMAGING INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

1. Histories and Organization

PixArt Imaging Inc. (the “Company”) was incorporated under the Company Law of the Republic of China on July 13, 1998. The Company specializes in CMOS image sensors and related IC design, research, production, and sales.

The Company’s common shares were listed on Taipei Exchange (formerly named Taiwan GreTai Securities Market) in May 2006. The Company’s registered office and the main business location is at No. 5, Innovation Road I, HsinChu Science Park, HsinChu, Taiwan, R.O.C.

2. Date and Procedures of Authorization of Financial Statements for Issue

The consolidated financial statements of PixArt Imaging Inc. and its subsidiaries (“the Group”) for the years ended December 31, 2020 and 2019 were authorized for issue by the Board of Directors’ meeting on March 19, 2021.

3. Newly Issued or Revised Standards and Interpretations

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

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission (“FSC”) and become effective for annual periods beginning on or after January 1, 2020. The adoption of these new standards and amendments and interpretations of initial application has no material impact on the Group.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
a	Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 1, 2021

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The abovementioned amendments that are applicable for annual periods beginning on or after January 1, 2021 have no material impact on the Group.

- (3) Standards or interpretations issued, revised or amended, by IASB which are not endorsed by FSC and not yet adopted by the Group as at the end of the reporting period are listed below:

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
a	IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 Insurance Contracts	January 1, 2023
c	Classification of Liabilities as Current or Non-current - Amendments to IAS 1	January 1, 2023
d	Narrow-scope amendments of IFRS, including Amendments to IFRS 3, Amendments to IAS 16, Amendments to IAS 37 and the Annual Improvements	January 1, 2022
e	Disclosure Initiative - Accounting Policies - Amendments to IAS 1	January 1, 2023
f	Definition of Accounting Estimates - Amendments to IAS 8	January 1, 2023

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

B. IFRS 17 “Insurance Contracts”

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

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

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims.

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

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

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

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

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

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

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

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

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

(d) Annual Improvements to IFRS Standards 2018 - 2020

Amendment to IFRS 1

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Amendment to IFRS 9 Financial Instruments

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

Amendment to Illustrative Examples Accompanying IFRS 16 Leases

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

Amendment to IAS 41

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

E. Disclosure Initiative - Accounting Policies - Amendments to IAS 1

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

F. Definition of Accounting Estimates - Amendments to IAS 8

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

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

4. Summary of Significant Accounting Policies

(1) Statement of Compliance

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The consolidated financial statements of the Group for the years ended December 31, 2020 and 2019 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”), the IFRSs, IASs, interpretations as well as related guidance endorsed and became effective by the FSC.

(2) Basis of Preparation

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

(3) Basis of Consolidation

Preparation principle of consolidated financial statements

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

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- (b) exposure, or rights, to variable returns from its involvement with the investee, and
- (c) the ability to use its power over the investee to affect its returns

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

- (a) the contractual arrangement with the other vote holders of the investee
- (b) rights arising from other contractual arrangements
- (c) the Group’s voting rights and potential voting rights

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

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

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

If the Group loses control of a subsidiary, it:

- (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognizes the carrying amount of any non-controlling interest;
- (c) recognizes the fair value of the consideration received;
- (d) recognizes the fair value of any investment retained;
- (e) recognizes any surplus or deficit in profit or loss; and
- (f) reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main business	Percentage of Ownership		Note
			December 31, 2020	December 31, 2019	
The Company	PixArt International (SAMOA) Ltd.	Investment activities	100%	100%	-
	Yuan-Xiang Investment Inc.	Investment activities	100%	100%	-
	Yuan-Feng Investment Inc.	Investment activities	100%	100%	-
	Audiowise Technology Inc.	IC design	83.67%	83.67%	-

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Investor	Subsidiary	Main business	Percentage of Ownership		Note
			December 31, 2020	December 31, 2019	
The Company	PixArt Imaging Finland Oy	Technical support activities	100%	-	1
PixArt International (SAMOA) Ltd.	PixArt Imaging (USA), Inc.	Technical support activities	100%	100%	-
	PixArt Imaging (Penang) SDN. BHD.	IC design	100%	100%	-
	YuanXiang Technology (SAMOA) Ltd.	Investment activities	100%	100%	-
	PixArt Investment (SAMOA) Ltd.	Investment activities	100%	100%	-
	PixArt Germany GmbH	Technical support activities	100%	100%	-
	PixArt Technology (SAMOA) Ltd.	Investment activities	100%	100%	-
	ePlan Technology (SAMOA) Ltd.	Technical support activities	-	100%	2
Yuan-Xiang Investment Inc.	PrimeSensor Technology Inc.	IC design	-	60.56%	3
	Yuan-Yao Technology Inc.	Manufacture	-	100%	4
	YuanXiang Investment (SAMOA) Ltd.	Investment activities	100%	100%	-
Yuan-Feng Investment Inc.	PrimeSensor Technology Inc.	IC design	-	37.65%	3
	Audiowise Technology Inc.	IC design	2.02%	1.95%	5
PrimeSensor Technology Inc.	PrimeSensor Technology (SAMOA) Ltd.	Investment activities	-	100%	2
YuanXiang Technology (SAMOA) Ltd.	PixArt Japan K.K.	Technical support activities	100%	100%	-

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Investor	Subsidiary	Main business	Percentage of Ownership		Note
			December 31, 2020	December 31, 2019	
PixArt Technology (SAMOA) Ltd.	PixArt Technology (Shenzhen) Co., Ltd.	Technical support activities	100%	100%	-

Note:

1. PixArt Imaging Finland Oy was incorporated in October 2020. As of December 31, 2020, the capital injection of PixArt Imaging Finland Oy has not been completed.
2. ePlan Technology (SAMOA) Ltd. and PrimeSensor Technology (SAMOA) Ltd. completed the liquidation process in the first quarter of 2020.
3. PrimeSensor Technology Inc. was dissolved due to the merger with the Company in October 2020. Please refer to Note 6(24) for further disclosure.
4. Yuan Yao was dissolved by the Board of Directors on February 17, 2020, and the related liquidation process has been completed.
5. Yuan-Feng Investment Inc. acquired the shares of Audiowise Technology Inc., in April 2020 and increased its percentage of ownership interest to 2.02% as of December 31, 2020.

(4) Foreign currency transactions

The Group's consolidated financial statements are presented in NT\$, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

- (a) Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- (b) Foreign currency items within the scope of IFRS 9 “*Financial Instruments*” are accounted for based on the accounting policy for financial instruments.
- (c) Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

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

(5) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into NT\$ at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. The partial disposals are accounted for as disposals when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including time deposits with original maturities of twelve months or less).

(8) Financial instruments

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

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

A. Financial instruments: Recognition and Measurement

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

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

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

Financial assets measured at amortized cost

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Such financial assets are subsequently measured at amortized cost and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognize the impairment gains or losses.

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

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

Financial asset measured at fair value through other comprehensive income

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

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

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
- i. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - ii. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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

Financial asset measured at fair value through profit or loss

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. Impairment of financial assets

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

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

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

The loss allowance is measured as follows:

- (a) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (b) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (c) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.
- (d) For lease receivables arising from transactions within the scope of IFRS 16, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

C. Derecognition of financial assets

A financial asset is derecognized when:

- i. The rights to receive cash flows from the asset have expired.
- ii. The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred.
- iii. The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

D. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities measured at amortized cost upon initial recognition.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

E. Offsetting of financial instruments

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

(9) Derivative instrument

The Group uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as financial assets or liabilities at fair value through profit or loss except for derivatives that are designated as effective hedging instruments which are classified as financial assets or liabilities for hedging.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of hedges, which is recognized in either profit or loss or equity according to types of hedges used.

When the host contracts are either non-financial assets or liabilities, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not designated at fair value through profit or loss.

(10) Fair value measurement

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

- (a) in the principal market for the asset or liability, or
- (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(11) Inventories

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

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

- (a) Raw materials - actual purchase cost measured using weighted-average method.
- (b) Finished goods and work in progress - cost of direct materials, direct labor and manufacturing overheads on weighted-average cost basis.

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

(12) Investments accounted for using the equity method

The Group's investment in its associate is accounted for using the equity method. An associate is an entity over which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

Under the equity method, the investment in the associate or an investment in a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate or joint venture. After the interest in the associate or joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the Group's related interest in the associate or joint venture.

When changes in the net assets of an associate or a joint venture occur and not those that are recognized in profit or loss or other comprehensive income and do not affect the Group's percentage of ownership interests in the associate or joint venture, the Group recognizes such changes in equity based on its percentage of ownership interests. The resulting capital surplus recognized will be reclassified to profit or loss at the time of disposing the associate or joint venture on a pro rata basis.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

When the associate or joint venture issues new stock, and the Group's interest in an associate or a joint venture is reduced or increased as the Group fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in capital surplus and investment accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income are reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Group disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 *Investments in Associates and Joint Ventures*. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 *Impairment of Assets*. In determining the value in use of the investment, the Group estimates:

- (a) Its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- (b) The present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Because goodwill that forms part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for goodwill impairment testing in IAS 36 *Impairment of Assets*.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(13) Property, plant and equipment

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

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

Buildings and facilities	45-51 years
Transportation equipment	6 years
Testing equipment	3-10 years
Other equipment	3-15 years

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(14) Investment property

The Group's owned investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, investment properties are measured using the cost model in accordance with the requirements of IAS 16 *Property, plant and equipment* for that model. If investment properties are held by a lessee as right-of-use assets and is not held for sale in accordance with IFRS 5, investment properties are measured in accordance with the requirements of IFRS 16.

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

Buildings	36-40 years
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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The Group transfers to or from investment properties when there is a change in use for these assets.

Properties are transferred to or from investment properties when the properties meet, or cease to meet, the definition of investment property and there is evidence of the change in use.

(15) Leases

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

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

Group as a lessee

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

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

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

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

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

That is, the Group measures the right-of-use applying a cost model.

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

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

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Group as a lessor

At inception of a contract, the Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

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

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

(16) Intangible assets

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

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

Research and development costs

Research costs are expensed as incurred. Development expenditures, on an individual project, are recognized as an intangible asset when the Group can demonstrate:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete and its ability to use or sell the asset;
- (c) how the asset will generate future economic benefits;
- (d) the availability of resources to complete the asset; and
- (e) the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. During the period of development, the asset is tested for impairment annually. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

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

	Patent	Computer software	IPs	Trademark
Useful lives	Finite (3-10 years)	Finite (3-10 years)	Finite (3-6 years)	Finite (6-9 years)
Amortization method used	Amortized on a straight-line basis over the period of the patent	Amortized on a straight-line basis over the estimated useful life	Amortized on a straight-line basis over the period of the IPs	Amortized on a straight-line basis over the period of the trademark
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(17) Impairment of non-financial assets

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

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

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

(18) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(19) Treasury stocks

Own equity instruments which are reacquired (treasury stocks) are recognized at cost and deducted from equity. Any difference between the carrying amount and the consideration is recognized in equity.

When treasury stocks are sold, if the selling price is above the book value, the difference should be credited to the capital surplus - treasury stock transactions. If the selling price is below the book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, is debited to retained earnings. The carrying value of treasury stock is calculated using the weighted-average approach in accordance with the purpose of the acquisition.

When the Company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus - premium on stock account and share capital account should be debited proportionately according to the share ratio. The carrying value of treasury stock in excess of the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, is debited to retained earnings. The sum of the par value and premium on stock in excess of its carrying value should be credited to capital surplus from the same class of treasury stock transactions.

(20) Revenue recognition

The Group's revenue arising from contracts with customers are primarily related to sale of goods and rendering of services. The accounting policies are explained as follows:

Sale of goods

Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is Complementary Metal-Oxide-Semiconductor (CMOS) and revenue is recognized based on the price specified in the contract, net of the estimated volume discounts. The Group estimates the discounts using the expected value method based on historical experiences. Revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur and when the uncertainty associated with the variable consideration is subsequently resolved.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The credit period of the Group's sale of goods is from 30 to 90 days. For most of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

Rendering of services

Revenue from the rendering of services primarily comes from non-recurring engineering, which is recognized based on the stage of completion of the contracts.

Most of the contractual considerations of the Group are collected evenly throughout the contract periods. When the Group has performed the services to customers but does not have a right to an amount of consideration that is unconditional, these contracts should be presented as contract assets. However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

The period between the transfers of contract liabilities to revenue is usually within one year, thus, no significant financing component is arisen.

(21) Post-employment benefits

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

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Foreign subsidiaries make contribution and recognize expenses in accordance with local requirements.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. Remeasurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest, are recognized as other comprehensive income with a corresponding debit or credit to retained earnings in the period in which they occur. Past service costs are recognized in profit or loss on the earlier of:

- (a) the date of the plan amendment or curtailment, and
- (b) the date that the Group recognizes restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

(22) Share-based payment transactions

The cost of equity-settled transactions between the Group and its employees is recognized based on the fair value of the equity instruments granted. The fair value of the equity instruments is determined by using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The cost of restricted stocks issued is recognized as salary expense based on the fair value of the equity instruments on the grant date, together with a corresponding increase in equity, over the vesting period. The Group recognized unearned employee salary which is a transitional contra equity account; the balance in the account will be recognized as salary expense over the passage of vesting period.

(23) Income taxes

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

Current income tax

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

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Deferred tax

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

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

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

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

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

A. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques, mainly the market approach. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note 12(7) for more details.

B. Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimates to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid changes in technologies, the Group estimates expected depletion from production, inventory obsolescence and future selling prices in market at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time period, therefore it may cause material adjustments. Please refer to Note 6(5) for more details.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	As of	
	December 31, 2020	December 31, 2019
Cash on hand	\$260	\$352
Checking and savings accounts	691,960	751,612
Time deposits	3,138,684	3,707,262
Cash equivalents-CP-Repo	461,268	260,349
Total	<u>\$4,292,172</u>	<u>\$4,719,575</u>

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

	As of	
	December 31, 2020	December 31, 2019
Mandatorily measured at fair value through profit or loss:		
Funds	\$15,581	\$18,627
Convertible notes	14,050	-
Total	<u>\$29,631</u>	<u>\$18,627</u>
Current	\$15,581	\$18,627
Non-current	14,050	-
Total	<u>\$29,631</u>	<u>\$18,627</u>

Financial assets at fair value through profit or loss were not pledged.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

	As of	
	December 31, 2020	December 31, 2019
Equity instrument investments measured at fair value through other comprehensive income		
Listed companies stocks	\$1,208,601	\$607,844
Unlisted companies stocks	1,316,097	842,097
Total	<u>\$2,524,698</u>	<u>\$1,449,941</u>
Current	\$754,400	\$263,200
Non-current	1,770,298	1,186,741
Total	<u>\$2,524,698</u>	<u>\$1,449,941</u>

Financial assets at fair value through other comprehensive income were not pledged.

For equity instrument investments measured at fair value through other comprehensive income, the Group recognized dividends in the amount of NT\$23,774 thousand and NT\$22,294 thousand for the years ended December 31, 2020 and 2019, respectively, which are all related to investments held at the end of the reporting period.

In consideration of the Group's investment strategy, the Group disposed and derecognized partial equity instrument investments measured at fair value through other comprehensive income. Details on derecognition of such investments for the years ended December 31, 2020 and 2019 are as follows:

	For the years ended December 31,	
	2020	2019
The fair value of the investments at the date of derecognition	\$113,430	\$15,456
The cumulative gain or loss on disposal reclassified from other equity to retained earnings	58,240	3,194

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(4) Trade receivables

	As of	
	December 31, 2020	December 31, 2019
Trade receivables (gross carrying amount)	\$1,478,184	\$799,359
Less: loss allowance	(22,661)	(12,202)
Total	<u>\$1,455,523</u>	<u>\$787,157</u>

Trade receivables were not pledged.

The credit period of the Group's sale of goods is from 30 to 90 days. Please refer to Note 6(17) for more details on loss allowance and Note 12 for details on credit risk.

(5) Inventories

	As of	
	December 31, 2020	December 31, 2019
Raw materials	\$61,756	\$29,164
Supplies	91,173	41,557
Work in progress	441,853	426,759
Finished goods	174,674	180,030
Total	<u>\$769,456</u>	<u>\$677,510</u>

For the years ended December 31, 2020 and 2019, the cost of inventories recognized in expenses amounted to NT\$3,429,657 thousand and NT\$2,560,261 thousand, respectively. The cost of goods sold included reversals of inventory write-downs of NT\$11,573 thousand and inventory write-downs of NT\$16,612 thousand for the years ended December 31, 2020 and 2019, respectively. The reversals of write-downs for the year ended December 31, 2020 resulted from inventories scrapped or sold.

No inventories were pledged.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(6) Investments accounted for using the equity method

The following table lists the investments in associates of the Group:

Investees	As of			
	December 31, 2020		December 31, 2019	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
<u>Unlisted company</u>				
CMC Capital Investments, L.P.	<u>\$40,228</u>	20.00%	<u>\$43,939</u>	20.00%

The share of (loss) profit of associates accounted for using the equity method was NT\$18,168 thousand and NT\$(204) thousand for the years ended December 31, 2020 and 2019, respectively.

The Group performed the impairment assessment of investments accounted for using the equity method for the year ended December 31, 2020. Based on assessment, the recoverable amount of the investment was determined based on the fair value less costs to sell, which was lower than carrying amount. The fair value measurement of the investment is categorized within Level 3. The impairment loss of NT\$19,146 thousand was recognized in other gains and losses.

The investment on CMC Investments, L.P. is not material to the Group. Summarized financial information of CMC Investments, L.P. is as follows:

	For the years ended December 31,	
	2020	2019
Income (loss) from continuing operations	\$18,168	\$(204)
Other comprehensive income (loss), net of tax	-	-
Total comprehensive income (loss)	<u>\$18,168</u>	<u>\$(204)</u>

As of December 31, 2020 and 2019, the aforementioned investment in associates does not have contingent liabilities, capital commitments, or was pledged.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(7) Property, plant and equipment

	As of	
	December 31, 2020	December 31, 2019
Owner occupied property, plant and equipment	\$636,040	\$464,363
Property, plant and equipment leased out under operating leases	45,638	45,762
Total	<u>\$681,678</u>	<u>\$510,125</u>

(1) Owner occupied property, plant and equipment

	Land	Buildings and facilities	Transportation equipment	Testing equipment	Miscellaneous equipment	Construction in progress	Total
Cost:							
As of January 1, 2020	\$62,611	\$298,532	\$2,988	\$179,373	\$290,047	\$800	\$834,351
Additions	-	-	-	25,162	61,642	745	87,549
Transfers from							
investment property	-	160,130	-	-	-	-	160,130
Disposals	-	-	(257)	(1,481)	(2,882)	-	(4,620)
Reclassification	-	-	-	-	1,545	(1,545)	-
Exchange differences	-	-	(2)	(414)	(2,191)	-	(2,607)
As of December 31,							
2020	<u>\$62,611</u>	<u>\$458,662</u>	<u>\$2,729</u>	<u>\$202,640</u>	<u>\$348,161</u>	<u>\$-</u>	<u>\$1,074,803</u>
As of January 1, 2019	\$62,611	\$298,532	\$2,993	\$159,620	\$224,224	\$-	\$747,980
Additions	-	-	-	19,986	66,252	800	87,038
Disposals	-	-	-	(149)	-	-	(149)
Exchange differences	-	-	(5)	(84)	(429)	-	(518)
As of December 31,							
2019	<u>\$62,611</u>	<u>\$298,532</u>	<u>\$2,988</u>	<u>\$179,373</u>	<u>\$290,047</u>	<u>\$800</u>	<u>\$834,351</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Land	Buildings and facilities	Transportation equipment	Testing equipment	Miscellaneous equipment	Construction in progress	Total
Depreciation and impairment:							
As of January 1, 2020	\$-	\$74,071	\$2,722	\$122,486	\$170,709	\$-	\$369,988
Depreciation	-	10,718	128	17,521	33,329	-	61,696
Transfers from							
investment property	-	13,292	-	-	-	-	13,292
Disposals	-	-	(257)	(1,481)	(2,857)	-	(4,595)
Exchange differences	-	-	-	(246)	(1,372)	-	(1,618)
As of December 31,							
2020	\$-	\$98,081	\$2,593	\$138,280	\$199,809	\$-	\$438,763
Depreciation and impairment:							
As of January 1, 2019	\$-	\$67,687	\$2,603	\$108,672	\$150,018	\$-	\$328,980
Depreciation	-	6,384	124	14,010	20,991	-	41,509
Disposals	-	-	-	(149)	-	-	(149)
Exchange differences	-	-	(5)	(47)	(300)	-	(352)
As of December 31,							
2019	\$-	\$74,071	\$2,722	\$122,486	\$170,709	\$-	\$369,988
Net carrying amount as of:							
December 31, 2020	\$62,611	\$360,581	\$136	\$64,360	\$148,352	\$-	\$636,040
December 31, 2019	\$62,611	\$224,461	\$266	\$56,887	\$119,338	\$800	\$464,363

(2) Property, plant and equipment leased out under operating leases

	Miscellaneous equipment
Cost:	
As of January 1, 2020 and December 31, 2020	\$46,144
As of January 1, 2019 and December 31, 2019	\$46,144
Depreciation and impairment:	
As of January 1, 2020	\$382
Depreciation	124
As of December 31, 2020	\$506

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Miscellaneous equipment
As of January 1, 2019	\$258
Depreciation	124
As of December 31, 2019	\$382
Net carrying amounts as of:	
December 31, 2020	\$45,638
December 31, 2019	\$45,762

(8) Investment property

	Land	Buildings	Total
Cost:			
As of January 1, 2020	\$-	\$215,608	\$215,608
Additions	119,930	17,930	137,860
Transfers to property, plant and equipment	-	(160,130)	(160,130)
As of December 31, 2020	\$119,930	\$73,408	\$193,338
As of January 1, 2019 and December 31, 2019	\$-	\$215,608	\$215,608
Depreciation and impairment:			
As of January 1, 2020	\$-	\$17,673	\$17,673
Depreciation	-	1,726	1,726
Transfers to property, plant and equipment	-	(13,292)	(13,292)
As of December 31, 2020	\$-	\$6,107	\$6,107
As of January 1, 2019	\$-	\$11,613	\$11,613
Depreciation	-	6,060	6,060
As of December 31, 2019	\$-	\$17,673	\$17,673

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Land	Buildings	Total
Net carrying amount as of:			
December 31, 2020	\$119,930	\$67,301	\$187,231
December 31, 2019	\$-	\$197,935	\$197,935

	For the years ended December 31,	
	2020	2019
Rental income from investment property	\$2,852	\$11,167
Less:		
Direct operating expenses from investment property generating rental income	(1,726)	(6,060)
Total	\$1,126	\$5,107

No investment property was pledged.

In 2020, the investment property of NT\$146,838 thousand was reclassified to property, plant and equipment for the Group's own use purpose.

Investment properties held by the Group are not measured at fair value but for which the fair value is disclosed. The fair value measurements of the investment properties are categorized within Level 3. The fair value of investment properties was NT\$189,430 thousand and NT\$197,955 thousand as of December 31, 2020 and 2019, respectively. Except for the investment property purchased during the year, the fair value has been determined based on valuations performed by an independent valuer. The valuation method used is the cost approach, and the inputs used are disclosed as follows:

	As of	
	December 31, 2020	December 31, 2019
Replacement cost (Taiwanese ping/ thousands)	\$83	\$80
Salvage value	5%	5%
High clearance premium	107%	107%

The fair value of the investment property purchased in December 2020 was NT\$137,860 thousand, which was determined based on the property sale and purchase contract.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(9) Intangible assets

	Patents	Computer software	IPs	Trademark	Total
Cost:					
As of January 1, 2020	\$756,295	\$355,032	\$96,720	\$-	\$1,208,047
Additions-acquired separately	168,254	91,920	54,819	884	315,877
Exchange differences	-	(2,666)	-	-	(2,666)
As of December 31, 2020	<u>\$924,549</u>	<u>\$444,286</u>	<u>\$151,539</u>	<u>\$884</u>	<u>\$1,521,258</u>
As of January 1, 2019	\$751,671	\$278,105	\$96,407	\$-	\$1,126,183
Additions-acquired separately	4,624	92,764	313	-	97,701
Reclassification	-	(15,300)	-	-	(15,300)
Exchange differences	-	(537)	-	-	(537)
As of December 31, 2019	<u>\$756,295</u>	<u>\$355,032</u>	<u>\$96,720</u>	<u>\$-</u>	<u>\$1,208,047</u>
Amortization:					
As of January 1, 2020	\$703,680	\$293,425	\$74,107	\$-	\$1,071,212
Amortization	34,081	93,243	19,948	44	147,316
Exchange differences	-	(2,111)	-	-	(2,111)
As of December 31, 2020	<u>\$737,761</u>	<u>\$384,557</u>	<u>\$94,055</u>	<u>\$44</u>	<u>\$1,216,417</u>
As of January 1, 2019	\$648,753	\$213,718	\$62,951	\$-	\$925,422
Amortization	54,927	87,276	11,156	-	153,359
Reclassification	-	(7,140)	-	-	(7,140)
Exchange differences	-	(429)	-	-	(429)
As of December 31, 2019	<u>\$703,680</u>	<u>\$293,425</u>	<u>\$74,107</u>	<u>\$-</u>	<u>\$1,071,212</u>
Net carrying amount as of:					
December 31, 2020	<u>\$186,788</u>	<u>\$59,729</u>	<u>\$57,484</u>	<u>\$840</u>	<u>\$304,841</u>
December 31, 2019	<u>\$52,615</u>	<u>\$61,607</u>	<u>\$22,613</u>	<u>\$-</u>	<u>\$136,835</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Amortization expenses of intangible assets in the statements of comprehensive income are as follows:

	For the years ended December 31,	
	2020	2019
Operating costs	\$690	\$1,691
Selling expenses	26,563	51,868
Administrative expenses	10,035	4,670
Research and development expenses	110,028	95,130
Total	<u>\$147,316</u>	<u>\$153,359</u>

(10) Other non-current assets

	As of	
	December 31, 2020	December 31, 2019
Advance payments in equipment	\$38,434	\$29,264
Other non-current assets - others	109,865	86,026
Advance payments in royalties	13,265	-
Total	<u>\$161,564</u>	<u>\$115,290</u>

(11) Other financial assets, non-current

	As of	
	December 31, 2020	December 31, 2019
Restricted deposits	\$987,115	\$-
Pledged time deposits	10,084	14,131
Total	<u>\$997,199</u>	<u>\$14,131</u>

Please refer to Note 8 for more details on other financial assets, non-current pledged as collateral.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(12) Short-term borrowings

	As of	
	December 31, 2020	December 31, 2019
Unsecured bank loans	\$415,300	\$-
Interest rates (%)	0.70~1.35%	-%

The Group's unused short-term lines of credits amounted to NT\$555,700 thousands and NT\$819,800 thousands as of December 31, 2020 and 2019, respectively.

(13) Post-employment benefits

Defined contribution plans

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

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

Expenses under the defined contribution plan for the years ended December 31, 2020 and 2019 were NT\$61,046 thousand and NT\$56,610 thousand, respectively.

Defined benefit plans

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Company adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company assesses the balance in the designated labor pension fund. If the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Company will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandates, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with paragraph 142 of IAS 19. The Company expects to contribute NT\$1,065 thousand to its defined benefit plan during the 12 months beginning after December 31, 2020.

The average duration of the defined benefits obligation are 13 years as of December 31, 2020 and 2019.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Pension costs of defined benefit plan recognized in profit or loss for the years ended December 31, 2020 and 2019 are as follows:

	For the years ended December 31,	
	2020	2019
Current service costs	\$474	\$496
Net interest expense on the net defined benefit liabilities	159	302
Total	<u>\$633</u>	<u>\$798</u>

Present value of defined benefit obligation and fair value of plan assets are reconciled as follows:

	As of		
	December 31, 2020	December 31, 2019	January 1, 2019
Present value of defined benefit obligation	\$46,358	\$44,214	\$48,428
Fair value of plan assets	(25,223)	(23,214)	(21,248)
Net defined benefit liabilities, non-current	<u>\$21,135</u>	<u>\$21,000</u>	<u>\$27,180</u>

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
As of January 1, 2019	\$48,428	\$(21,248)	\$27,180
Current service costs	496	-	496
Interest expense (income)	538	(236)	302
Subtotal	<u>1,034</u>	<u>(236)</u>	<u>798</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in demographic assumptions	138	-	138
Actuarial gains and losses arising from changes in financial assumptions	(3,848)	-	(3,848)
Experience adjustments	(1,538)	-	(1,538)
Remeasurements of the defined benefit assets	-	(703)	(703)
Subtotal	(5,248)	(703)	(5,951)
Payments from the plan	-	-	-
Contributions by employer	-	(1,027)	(1,027)
As of January 1, 2020	\$44,214	\$(23,214)	\$21,000
Current service costs	474	-	474
Interest expense (income)	336	(177)	159
Subtotal	810	(177)	633
Remeasurements of the net defined benefit liability (asset):			
Actuarial gains and losses arising from changes in financial assumptions	2,012	-	2,012
Experience adjustments	(678)	-	(678)
Remeasurements of the defined benefit assets	-	(768)	(768)
Subtotal	1,334	(768)	566
Payments from the plan	-	-	-
Contributions by employer	-	(1,064)	(1,064)
As of December 31, 2020	\$46,358	\$(25,223)	\$21,135

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	As of	
	December 31, 2020	December 31, 2019
Discount rate	0.40%	0.76%
Expected rate of salary increases	3.00%	3.00%

A sensitivity analysis for each significant assumption is shown as below:

	Effect on the defined benefit obligation			
	2020		2019	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	\$-	\$2,757	\$-	\$2,774
Discount rate decrease by 0.5%	3,041	-	3,064	-
Future salary increase by 0.5%	2,945	-	2,979	-
Future salary decrease by 0.5%	-	2,703	-	2,729

The sensitivity analyses above are based on a change in a single assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There were no changes in the methods and assumptions used in preparing the sensitivity analyses compared to the prior period.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(14) Equity

A. Share capital

The Company's authorized capital was NT\$2,000,000 thousand and NT\$1,500,000 thousand (including 15,000 thousand shares reserved for exercising of employee share options) as of December 31, 2020 and 2019, respectively, with par value of NT\$10 each share. The Company's issued capital was NT\$1,415,545 thousand and NT\$1,373,837 thousand, divided into 141,555 thousand shares and 137,384 thousand shares as of December 31, 2020 and 2019, respectively. Each share has one voting right and a right to receive dividends.

For the year ended December 31, 2020, employees exercised 1,758 thousand shares of employee share options with a weighted average exercise price of NT\$57.66 per share, which in total amounted to NT\$101,339 thousand, of which 4 thousand shares of employee share options in the amount of NT\$235 thousand have not been completed the registration procedures and accounted under the capital collected in advance as of December 31, 2020. Except for abovementioned shares, as of the report date, the government approval has been successfully obtained and the registration has been completed.

For the year ended December 31, 2019, employees exercised 1,566 thousand shares of employee share options with a weighted average exercise price of NT\$46.75 per share, which in total amounted to NT\$73,190 thousand, of which 72 thousand shares of employee share options in the amount of NT\$4,303 thousand have not been completed the registration procedures and accounted under the capital collected in advance as of December 31, 2019. Except for abovementioned shares, as of the report date, the government approval has been successfully obtained and the registration has been completed.

The Company issued 2,428 thousand restricted shares to employees for the year ended December 31, 2020, with par value of NT\$10 each share. Due to resignation of employees who had been granted restricted shares, the Company recalled and cancelled 83 thousand shares in accordance with the restricted shares plan for the year ended December 31, 2020. As of the report date, the government approval has been successfully obtained and the registration has been completed.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Company issued 65 thousand restricted shares to employees for the year ended December 31, 2019, with par value of NT\$10 each share. Due to resignation of employees who had been granted restricted shares, the Company recalled and cancelled 47 thousand shares in accordance with the restricted shares plan for the year ended December 31, 2019. As of the report date, the government approval has been successfully obtained and the registration has been completed.

B. Capital surplus

	As of	
	December 31, 2020	December 31, 2019
Additional paid-in capital - common stock	\$1,765,307	\$1,534,016
Treasury stock transactions	86,005	9,114
Donated by shareholders	3,816	3,816
Employee share options	89,194	160,083
Share options	3,955	65,587
Restricted shares for employees	443,414	145,614
Changes in ownership interests in subsidiaries	8,171	8,171
Total	<u>\$2,399,862</u>	<u>\$1,926,401</u>

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

C. Retained earnings and dividend policy

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

- (a) payment of all taxes and dues;
- (b) offsetting accumulated deficits, if any;

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (c) legal reserve at 10% of net income after tax;
- (d) set aside or reverse of special reserves as required by law;
- (e) the remaining net profits and the retained earnings from previous years, after all the above appropriations and distributions, will be allocated as shareholder's bonus.

The distribution will be proposed by the Board of Directors and resolved in the shareholders' meeting. Articles of Incorporation stipulate that the Board of Directors is authorized to adopt by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors to distribute dividends and bonuses in cash and a report of such distribution shall be submitted to the shareholders' meeting.

The policy for dividend distribution should reflect factors such as the current and future fund requirements and long-term financial planning. The Board of Directors shall make the distribution proposal annually and submit it to the shareholders' meeting for approval. The Company shall allocate all of the annual distributable earnings in accordance with the consideration of finance, business and operation management. Shareholders' dividends may be distributed in the form of shares, cash, or a combination of both. Cash dividends may not be less than 10% of total dividends to be distributed.

Where a company incurs no loss, it may, pursuant to a resolution to 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 a report of such resolution shall be submitted to the shareholders' meeting, distribute its legal reserve and the following capital reserve by cash to its original shareholders in proportion to the number of shares being held by each of them:

- (a) the income derived from the issuance of new shares at a premium;
- (b) the income from endowments received by the company.

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

When distributing earnings, the Company shall set aside a special reserve in the amount equal to the net deductions of other equity. For any subsequent reversal of net deductions of other equity, the special reserve in the amount equal to the reversal may be released for earnings distribution.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Detail of the 2019 and 2018 earnings distribution and dividends per share as approved by the shareholders' meeting on June 12, 2020 and June 13, 2019, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$83,787	\$85,836		
Special reserve	(119,705)	137,923		
Cash dividend	715,298	722,312	\$5.13	\$5.3

Please refer to Note 6(19) for further details on employees' compensation and remuneration to directors.

D. Non-controlling interests

	For the years ended December 31,	
	2020	2019
Beginning balance	\$43,209	\$12,509
Loss attributable to non-controlling interests	(17,961)	(5,265)
Acquisition of new shares in a subsidiary not in proportion to ownership interests	-	35,708
Acquisition of non-controlling interests in subsidiaries	(2,014)	-
Return of capital of the subsidiaries	(2,151)	-
Others	28	257
Ending balance	<u>\$21,111</u>	<u>\$43,209</u>

(15) Share-based payment plans

Certain employees of the Group are entitled to share-based payment as part of their remunerations; services are provided by the employees in return for the equity instruments granted. These plans are accounted for as equity-settled share-based payment transactions.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(a) Employee share options plan

The employee share options were conferred on the employees who meet the specific qualifications of the Company and all subsidiaries. The option holders of the employee share options may exercise the options based on designated schedule and percentage after issuance of two years or two years and three months. The contractual periods range from 4 to 6 years, and after that, the un-exercised options are considered forfeited and the option holders no longer have rights to exercise these options.

Information of the abovementioned employees share options plan is as follows:

Date of grant	Total number of share options granted (Units)	Total number of shares available for an individual option holder (shares)	Exercise price of share options (NT\$) (Note)
October 20, 2015	915,000	1	\$31.4
December 22, 2015	16,000	1	\$33.6
January 11, 2016	4,419,290	1	\$59.9
March 27, 2016	8,000	1	\$31.6
May 10, 2016	16,000	1	\$28.6
May 10, 2016	580,710	1	\$57.2
August 2, 2016	45,000	1	\$31.7
December 19, 2017	650,000	1	\$70.8
August 3, 2018	329,570	1	\$53.4
November 6, 2018	11,500	1	\$40.8
March 25, 2019	8,930	1	\$40.3

Note: The exercise prices are adjusted in accordance with the plan in the event that changes to the Company's total common shares occur or the Company pays cash dividends.

The contracted periods of the share options range from four to six years and the options cannot be settled by cash. The Company has never granted cash-settled options to its employees.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

The aforementioned share options granted were priced using the Black-Scholes Option Pricing model, and the inputs to the model are as follows:

Employee share option plan	Expected dividend yield	Expected volatility	Risk free interest rate	Expected life
2015 first plan	3.20%	43.00%	0.90%	4.56 years
2015 second plan	3.40%	42.80%	0.80%	4.56 years
2016 first plan	0.00%	41.90%	0.80%	4.50 years
2016 second plan	0.00%	38.60%	0.61%	4.56 years
2016 third plan	0.00%	35.20%	0.50%	4.56 years
2016 fourth plan	0.00%	35.20%	0.50%	4.50 years
2016 fifth plan	0.00%	35.40%	0.50%	4.56 years
2017 first plan	0.00%	34.40%	0.55%	3.25 years
2018 first plan	0.00%	35.50%	0.61%	3.25 years
2018 second plan	0.00%	38.10%	0.69%	3.25 years
2019 first plan	0.00%	36.80%	0.59%	3.25 years

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

Compensation costs recognized for employee share options were NT\$12,337 thousand and NT\$39,435 thousand for the years ended December 31, 2020 and 2019, respectively.

The following table contains further details on the aforementioned employee share options plan:

PIXART IMAGING INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

	For the years ended December 31,			
	2020		2019	
Employee share options	Number of share options (in thousand units)	Weighted average exercise price of share options (NT\$)	Number of share options (in thousand units)	Weighted average exercise price of share options (NT\$)
Outstanding at beginning of period	3,768	\$59.29	5,423	\$57.71
Granted	-	-	9	43.50
Exercised (Note)	(1,758)	57.66	(1,566)	46.75
Forfeited	(66)	62.24	(98)	57.15
Outstanding at end of period	1,944	58.61	3,768	59.29
Exercisable at end of period	1,788		1,533	
Weighted average fair value of share options granted during the period (NT\$)	\$-		\$47.00	

Note: The weighted average share price at the date of exercise of those options was NT\$173.46 and NT\$117.09 for the years ended December 31, 2020 and 2019, respectively.

The information on the outstanding employee share options plan as of December 31, 2020 and 2019 is as follows:

	Range of exercise price (NT\$)	Weighted average remaining life (years)
Outstanding share options as of December 31, 2020	\$31.40-70.80	1.09
Outstanding share options as of December 31, 2019	\$29.50-73.10	2.06

The Group did not cancel or modify the aforementioned employee share options plan in 2020 and 2019.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(b) Treasury stock to employees

In 2019, the Company transferred 530 thousand shares to employees with an exercise price of NT\$72.08. For the years ended December 31, 2020 and 2019, compensation costs recognized were NT\$15,270 thousand and NT\$28,622 thousand, respectively. The options granted were priced using the Black-Scholes Option Pricing model, and the assumptions to the model are as follows:

	Employee stock purchase plan		
	Seventh Plan	Eighth Plan	Ninth Plan
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	37.30%	35.80%	32.60%
Risk-free interest rate	0.40%	0.30%	0.40%
Expected life	2.29 years	0.13 years	0.59 years
Estimated fair value per share (NT\$)	\$16.69	\$15.73	\$42.38

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

(c) Restricted shares plan for employees

The restricted rights on the restricted shares before reaching the vesting conditions are as follows:

- Prior to vesting conditions are reached, the employees shall not sell, mortgage, transfer, donate, pledge or dispose the restricted shares in any other ways except inheritance.
- The attendance, motion, making speeches and voting rights in shareholders' meeting shall be executed by the custodian organization according to the trust contract.
- Prior to vesting conditions are reached, the restricted shares are entitled to dividends without limitation.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

In cases of any voluntary leave, retirement and severance happens before vested, it is treated as failing to meet vesting conditions from the effective date. The Company would recall and cancel those employee restricted shares.

The Company recalled and cancelled 83 thousand shares and 47 thousand shares due to employees' resignation, with par value of NT\$10 each share, during the years ended December 31, 2020 and 2019, respectively. Please refer to Note 6(14)A for further disclosure.

Information of the restricted shares for employee as of December 31, 2020 is disclosed as follows:

Grant date	Shares issued (shares)	Exercise price (NT\$)	Fair value per share (NT\$)	Shares restricted as of December 31, 2020 (shares)
2018.09.18	1,935,030	\$-	\$117.5	731,996
2019.04.16	64,970	\$-	\$91.2	43,589
2020.02.03	558,050	\$-	\$145.5	544,550
2020.08.21	37,000	\$-	\$207.5	37,000
2020.10.08	1,800,000	\$-	\$171.0	1,796,360
2020.11.20	32,290	\$-	\$173.5	32,290

The restricted shares granted to employees were measured at fair value, which resulted in a compensation expense amounting to NT\$137,880 thousand and NT\$123,343 thousand in 2020 and 2019, respectively. As of December 31, 2020 and 2019, balance of Capital Surplus-Restricted Shares for Employees was NT\$443,414 thousand and NT\$145,614 thousand, respectively, and Employee Unearned Reward was NT\$321,942 thousand and NT\$77,639 thousand, respectively.

(d)The expense recognized for employee services received during the years ended December 31, 2020 and 2019, is shown in the following table:

	For the years ended December 31,	
	2020	2019
Total expense arising from equity-settled share-based payment transactions	\$165,487	\$191,400

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(16) Operating revenue

	For the years ended December 31,	
	2020	2019
Revenue from contracts with customers		
Sale of goods	\$8,035,820	\$6,011,940
Other operating revenues	112,197	63,080
Total	<u>\$8,148,017</u>	<u>\$6,075,020</u>

Analysis of revenue from contracts with customers during the years ended December 31, 2020 and 2019 are as follows:

(1) Disaggregation of revenue

A. By geography

	For the years ended December 31,	
	2020	2019
Taiwan	\$5,374,936	\$4,150,316
China	1,189,686	855,970
Hong Kong	1,152,647	875,126
Japan	338,244	137,296
Others	92,504	56,312
Total	<u>\$8,148,017</u>	<u>\$6,075,020</u>

Revenues are presented by customers' country.

B. By product

	For the years ended December 31,	
	2020	2019
COMS image sensor	\$8,035,820	\$6,011,940
Others	112,197	63,080
Total	<u>\$8,148,017</u>	<u>\$6,075,020</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	For the years ended December 31,	
	2020	2019
Timing of revenue recognition:		
At a point in time	\$8,081,995	\$6,017,023
Over time	66,022	57,997
Total	<u>\$8,148,017</u>	<u>\$6,075,020</u>

(2) Contract balance

Contract liabilities – current

	As of		
	December 31, 2020	December 31, 2019	January 1, 2019
Sale of goods	<u>\$16,951</u>	<u>\$3,437</u>	<u>\$1,397</u>

The significant changes in the Group's balances of contract liabilities for the years ended December 31, 2020 and 2019 are as follows:

	For the years ended December 31,	
	2020	2019
The opening balance transferred to revenue	\$(3,505)	\$(1,126)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	17,019	3,166

(3) Transaction price allocated to unsatisfied performance obligations

The Group's transaction price allocated to unsatisfied performance obligations amounted to US\$656 thousand and NT\$9,050 thousand as of December 31, 2020. Management expects all those amounts will be recognized during 2021 financial year.

The Group's transaction price allocated to unsatisfied performance obligations amounted to US\$160 thousand as of December 31, 2019. Management expects all those amounts will be recognized during 2020 financial year.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(4) Assets recognized from costs to fulfil a contract: None.

(17) Expected credit losses

	For the years ended December 31,	
	2020	2019
Operating expenses – Expected credit losses		
Trade receivables	\$10,505	\$964
Non-operating income and expenses - expected credit losses		
Other receivables	\$-	\$985

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

The Group measures the loss allowance of its trade receivables at an amount equal to lifetime expected credit losses. The assessment of the Group's loss allowance as of December 31, 2020 and 2019 is as follows:

The Group considers the grouping of trade receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is measured by using a provision matrix. Details are as follows:

As of December 31, 2020

	Not yet due	Overdue		Total
		<=30 days	31-60 days	
Gross carrying amount	\$1,478,184	\$-	\$-	\$1,478,184
Loss ratio	1.5%	8%	30%	
Lifetime expected credit losses	(22,661)	-	-	(22,661)
Carrying amount of trade receivables	\$1,455,523	\$-	\$-	\$1,455,523

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

As of December 31, 2019

	Not yet due	Overdue		Total
		<=30 days	31-60 days	
Gross carrying amount	\$799,020	\$339	\$-	\$799,359
Loss ratio	1.5%	8%	30%	
Lifetime expected credit losses	(12,174)	(28)	-	(12,202)
Carrying amount of trade receivables	<u>\$786,846</u>	<u>\$311</u>	<u>\$-</u>	<u>\$787,157</u>

The movement in the provision for impairment of trade receivables during the years ended December 31, 2020 and 2019 is as follows:

	For the years ended December 31,	
	2020	2019
Beginning balance	\$12,202	\$11,235
Addition for the current period	10,505	964
Exchange effect	(46)	3
Ending balance	<u>\$22,661</u>	<u>\$12,202</u>

(18) Operating leases

A. Group as a lessee

The Group leases various properties, including real estate such as land and buildings, and transportation equipment for the use of plants, office and operation with lease terms of 2 to 33 years. The Group is not allowed to sublease all or any portion of the underlying assets without obtaining the consent from the lessors. The Group did not have bargain purchase options to acquire the underlying assets at the end of the lease terms.

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(a) Amounts recognized in the balance sheet

i. Right-of-use assets

The carrying amount of right-of-use assets

	As of	
	December 31, 2020	December 31, 2019
Land	\$144,019	\$148,326
Building	40,495	52,504
Transportation equipment	-	840
Total	<u>\$184,514</u>	<u>\$201,670</u>

During the years ended December 31, 2020 and 2019, the Group's additions to right-of-use assets amounted to NT\$9,059 thousand and NT\$10,455 thousand, respectively.

ii. Lease liabilities

	As of	
	December 31, 2020	December 31, 2019
Current	\$21,253	\$20,652
Non-current	166,741	182,977
Total	<u>\$187,994</u>	<u>\$203,629</u>

Please refer to Note 6 (20).(D) for the interest on lease liabilities recognized during the years ended December 31, 2020 and 2019. Please refer to Note 12 (E) Liquidity Risk Management for the maturity analysis for lease liabilities as of December 31, 2020 and 2019.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

Depreciation charge for right-of-use assets

	For the years ended December 31,	
	2020	2019
Land	\$4,773	\$4,795
Building	19,947	17,224
Transportation equipment	840	840
Total	<u>\$25,560</u>	<u>\$22,859</u>

- (c) Income and costs relating to leasing activities

	For the years ended December 31,	
	2020	2019
The expenses relating to short-term leases	\$2,326	\$2,401
The expenses relating to leases of low-value assets (excluding the expenses relating to short-term leases of low-value assets)	340	381

- (d) Cash outflow relating to leasing activities

For the years ended December 31, 2020 and 2019, the Group's total cash outflows for leases amounted to NT\$31,056 thousand and NT\$28,103 thousand, respectively.

- (e) Other information relating to leasing activities

Extension and termination options

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Some of the Group's lease agreements contain extension and termination options. In determining the lease terms, the Group includes the non-cancellable period for which the Group has the right to use an underlying asset, together with both periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. These options are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group. After the commencement date, the Group reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

B. Group as a lessor

Please refer to Note 6(8) for details on the Group's owned investment properties. Leases of owned investment properties are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets.

Please refer to Note 6(7) for relevant disclosure of property, plant and equipment for operating leases under IFRS 16.

	For the years ended December 31,	
	2020	2019
Lease income for operating leases		
Income relating to fixed lease payments	\$5,421	\$13,678

For operating leases entered by the Group, the undiscounted lease payments to be received and a total of the amounts for the remaining years as of December 31, 2020 and 2019 are as follows:

	As of	
	December 31, 2020	December 31, 2019
Not later than one year	\$2,933	\$2,197
For one or two years	1,154	-
Total	\$4,087	\$2,197

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (19) Summary of employee benefits, depreciation and amortization expenses by function for the years ended December 31, 2020 and 2019:

by nature by function	For the years ended December 31,					
	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$71,573	\$1,945,593	\$2,017,166	\$62,875	\$1,644,485	\$1,707,360
Labor and health insurance	-	74,955	74,955	-	69,975	69,975
Pension	2,101	59,578	61,679	1,945	55,463	57,408
Others employee benefit expense	1,185	28,903	30,088	1,105	26,885	27,990
Depreciation (Note 1)	6,092	81,288	87,380	4,807	59,685	64,492
Amortization (Note 2)	11,482	257,404	268,886	20,976	232,133	253,109

Note 1: Depreciation of investment property of NT\$1,726 thousand and NT\$6,060 thousand for the years ended December 31, 2020 and 2019, respectively, were not included.

Note 2: The amortization expenses include the amortization of prepaid expenses and other noncurrent assets in the amount of NT\$121,570 thousand and NT\$99,750 thousand for the years ended December 31, 2020 and 2019, respectively.

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Based on the profit for the year, the Company's estimates of the amounts of the employees' compensation and remuneration to directors, which were recognized as operating costs or operating expenses, for the years ended December 31, 2020 and 2019, are as follows:

	For the years ended December 31,	
	2020	2019
Employees' compensation	\$283,677	\$160,657
Remuneration to directors	20,425	11,567

Differences between the estimated amount and the actual distribution of the employees' compensation and remuneration to directors are recognized in profit or loss of the subsequent year. If the Board of Directors resolved to distribute employees' compensation in the form of stocks, then the number of stocks distributed as employees' compensation was calculated based on the closing price one day earlier than the date of resolution.

A resolution was made by the Board of Directors meeting held on March 19, 2021 to distribute NT\$283,677 thousand and NT\$20,425 thousand in cash as employees' compensation and remuneration to directors, respectively. There was no difference between the aforementioned approved amounts and the amounts charged against earnings in 2020.

No differences exist between the estimated amount and the actual distribution of the employees' compensation and remuneration to directors for the year ended December 31, 2019.

(20) Non-operating income and expenses

A. Interest income

	For the years ended December 31,	
	2020	2019
Financial assets measured at amortized cost	\$45,119	\$76,916

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. Other income

	For the years ended December 31,	
	2020	2019
Dividend income	\$23,774	\$22,294
Rental income	5,421	13,678
Others	4,516	2,206
Total	<u>\$33,711</u>	<u>\$38,178</u>

C. Other gains and losses

	For the years ended December 31,	
	2020	2019
Foreign exchange losses, net	\$(131,704)	\$(24,951)
(Losses) gains on financial assets at fair value through profit (Note)	(534)	88
Impairment losses on investments accounted for using the equity method	(19,146)	-
Others	(1,818)	(6,107)
Total	<u>\$(153,202)</u>	<u>\$(30,970)</u>

Note: Balance in current period was arising from financial assets mandatorily measured at fair value through profit or loss.

D. Finance costs

	For the years ended December 31,	
	2020	2019
Interest on lease liabilities	\$4,331	\$4,567
Interest expenses on borrowings from bank	1,237	792
Total	<u>\$5,568</u>	<u>\$5,359</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(21) Components of other comprehensive income

For the year ended December 31, 2020

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$ (566)	\$ -	\$ (566)	\$ 113	\$ (453)
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	1,004,084	-	1,004,084	-	1,004,084
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(77,297)	-	(77,297)	15,459	(61,838)
Total	\$926,221	\$ -	\$926,221	\$15,572	\$941,793

For the year ended December 31, 2019

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$5,951	\$ -	\$5,951	\$ (1,190)	\$4,761
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	304,106	-	304,106	-	304,106

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Reclassification adjustments Arising during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of foreign operations	(36,803)	-	7,361	(29,442)
Total	\$273,254	\$-	\$6,171	\$279,425

(22) Income tax

The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	For the years ended December 31,	
	2020	2019
Current income tax expenses:		
Current income tax charge	\$402,876	\$150,970
Adjustments in respect of current income tax of prior periods	(1,595)	-
Deferred tax expense (income):		
Deferred tax expense relating to origination and reversal of temporary differences	(121,444)	63,420
Deferred tax expense (income) relating to origination and reversal of tax loss and tax credit	58,246	(5,681)
Income tax expense	\$338,083	\$208,709

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Income tax relating to components of other comprehensive income

	For the years ended December 31,	
	2020	2019
Deferred tax expense (income):		
Exchange differences resulting from translating the financial statements of foreign operations	\$(15,459)	\$(7,361)
Remeasurement of the defined benefit plan	(113)	1,190
Income tax relating to components of other comprehensive income	<u>\$(15,572)</u>	<u>\$(6,171)</u>

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

	For the years ended December 31,	
	2020	2019
Accounting profit before tax from continuing operations	<u>\$1,776,728</u>	<u>\$1,039,030</u>
Tax at the domestic rates applicable to profits in the country concerned	\$404,776	\$256,690
Tax effect of revenues exempt from taxation	(2,584)	(1,902)
Tax effect of deferred tax assets/liabilities	(72,826)	(46,079)
Corporate income surtax on undistributed retained earnings	7,924	-
Adjustments in respect of current income tax of prior periods	(1,595)	-
Tax effect of other adjustments in accordance with the Income Tax Act	<u>2,388</u>	<u>-</u>
Total income tax expense recognized in profit or loss	<u>\$338,083</u>	<u>\$208,709</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Deferred tax assets (liabilities) relate to the following:

For the year ended December 31, 2020

	Beginning balances	Recognized in profit and loss	Recognized in other comprehensive income	Ending balances
Temporary differences				
Unrealized inventory loss	\$8,922	\$15,567	\$-	\$24,489
Unrealized accrued expenses	10,427	(148)	-	10,279
Net defined benefit liabilities, non-current	4,200	(86)	113	4,227
Accrued employee benefits	1,223	740	-	1,963
Investments accounted for using the equity method	(455,423)	90,610	-	(364,813)
Exchange differences resulting from translating the financial statements of foreign operations	64,016	-	15,459	79,475
Other liabilities	(740)	(1,055)	-	(1,795)
Others	3,754	15,816	-	19,570
Unused tax losses	1,166	(1,166)	-	-
Unused tax credits	57,080	(57,080)	-	-
Deferred tax income /(expense)		<u>\$63,198</u>	<u>\$15,572</u>	
Net deferred tax assets (liabilities)	<u>\$(305,375)</u>			<u>\$(226,605)</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$151,006</u>			<u>\$141,095</u>
Deferred tax liabilities	<u>\$(456,381)</u>			<u>\$(367,700)</u>

For the year ended December 31, 2019

	Beginning balances	Recognized in profit and loss	Recognized in other comprehensive income	Ending balances
Temporary differences				
Unrealized inventory loss	\$9,797	\$(875)	\$-	\$8,922
Unrealized accrued expenses	12,326	(1,899)	-	10,427

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Beginning balances	Recognized in profit and loss	Recognized in other comprehensive income	Ending balances
Net defined benefit liabilities, non-current	5,436	(46)	(1,190)	4,200
Accrued employee benefits	1,364	(141)	-	1,223
Investments accounted for using the equity method	(394,415)	(61,008)	-	(455,423)
Exchange differences resulting from translating the financial statements of foreign operations	56,655	-	7,361	64,016
Other liabilities	(129)	(611)	-	(740)
Others	2,594	1,160	-	3,754
Unused tax losses	8,087	(6,921)	-	1,166
Unused tax credits	44,478	12,602	-	57,080
Deferred tax income /(expense)		<u>\$(57,739)</u>	<u>\$6,171</u>	
Net deferred tax assets (liabilities)	<u>\$(253,807)</u>			<u>\$(305,375)</u>
Reflected in balance sheet as follows:				
Deferred tax assets	<u>\$140,767</u>			<u>\$151,006</u>
Deferred tax liabilities	<u>\$(394,574)</u>			<u>\$(456,381)</u>

The following table contains information of the unused tax losses of the Group:

Year	Unused tax losses as of		Expiration year
	December 31, 2020	December 31, 2019	
2011	\$-	\$36,522	2021
2012	18,254	118,968	2022
2013	-	306	2023
2014	157,256	231,881	2024
2015	69	88,083	2025
2016	166,057	234,833	2026
2017	140	139,593	2027
2018	21	168,594	2028
2019	427,560	564,890	2029
2020 (estimated)	272,171	-	2030
	<u>\$1,041,528</u>	<u>\$1,583,670</u>	

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Unrecognized deferred tax assets

As of December 31, 2020 and 2019, deferred tax assets that have not been recognized were NT\$208,306 thousand and NT\$338,310 thousand, respectively.

The assessment of income tax returns

As of the report date, the assessment of the income tax returns of the Company and its subsidiaries are as follows:

	<u>The assessment of income tax returns</u>
The Company	Assessed and approved up to 2018
Subsidiary- Yuan-Xiang Investment Inc.	Assessed and approved up to 2018
Subsidiary- Yuan-Feng Investment Inc.	Assessed and approved up to 2018
Subsidiary- PixArt Imaging (Penang) Sdn. Bhd.	Filed up to 2019

(23) Earnings per share

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

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

	<u>For the years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	<u>\$1,456,606</u>	<u>\$835,586</u>
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	<u>137,359,424</u>	<u>134,108,757</u>
Basic earnings per share (NT\$)	<u>\$10.60</u>	<u>\$6.23</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	For the years ended December 31,	
	2020	2019
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$1,456,606	\$835,586
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	137,359,424	134,108,757
Effect of dilution:		
Employee bonuses-stock (share)	1,760,681	1,493,880
Employee share options (share)	1,595,712	2,095,745
Restricted shares for employees (share)	1,437,312	1,434,108
Weighted average number of ordinary shares outstanding after dilution (share)	142,153,129	139,132,490
Diluted earnings per share (NT\$)	\$10.25	\$6.01

There have been no other transactions involving ordinary shares or potential ordinary shares between the end of reporting period and the date of the financial statements were authorized for issue.

(24) Changes in ownership interests in subsidiaries

The merger of subsidiary, PrimeSensor Technology Inc.

The Company's merger with PrimeSensor Technology Inc. was approved by the Board Directors on August 4, 2020 and by the shareholders of PrimeSensor Technology Inc. in their special meeting of shareholders on August 27, 2020, respectively. The record date of the merger was on October 1, 2020 with the purchase consideration of NT\$10 per share. After the merger, the Company was the surviving company and PrimeSensor Technology Inc. was the dissolved company.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

PrimeSensor Technology Inc. was originally a subsidiary of the Company's 100% shareholding subsidiaries Yuan-Xiang Investment Inc. and Yuan-Feng Investment Inc. with the original total shareholding of 98.2%. In this transaction, the Company acquired the remaining 1.8% shareholding from the non-controlling interest shareholders of PrimeSensor Technology Inc. with a cash consideration of NT\$2,216 thousand. The difference of the cash consideration paid to non-controlling shareholders and the respective carrying amount of net assets of PrimeSensor Technology Inc. was NT\$358 thousand, which was recognized in equity.

Subscription of new shares in a subsidiary not in proportion to original ownership interest

PrimeSensor Technology Inc. issued new shares in 2019 and the Company's subsidiaries, Yuan-Xiang Investment Inc. and Yuan-Feng Investment Inc., did not subscribe to the new shares in proportion to their respective original ownership interests, resulting in a change in the ownership interests in PrimeSensor Technology Inc. However, the transactions were accounted for as equity transactions, since the Group did not cease to have control over PrimeSensor Technology Inc. The Group's share of interests of PrimeSensor Technology Inc. decreased by NT\$2,709 thousand in 2019, which were recognized in equity.

Audiowise Technology Inc. issued new shares in April 2019 and the Company and its a subsidiary, Yuan-Feng Investment Inc., did not subscribe to the new shares in proportion to their respective original ownership interests, resulting in a change in the ownership interests in Audiowise Technology Inc. However, the transaction was accounted for as equity transactions, since the Group did not cease to have control over Audiowise Technology Inc. The Group's share of interests of Audiowise Technology Inc. increased by NT\$5,208 thousand in 2019, which was recognized in equity.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

7. Related Party Transactions

Significant transactions with the related parties

Compensation of key management personnel

	For the years ended December 31,	
	2020	2019
Short-term employee benefits	\$116,906	\$82,308
Post-employment benefits	1,718	1,661
Share-based payment (Note)	26,548	37,692
Total	<u>\$145,172</u>	<u>\$121,661</u>

Note : Estimated compensation expenses.

8. Assets Pledged as Security

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

Assets pledged for security	Carrying amount		Purpose of pledge
	December 31, 2020	December 31, 2019	
Other financial assets, non-current	\$5,084	\$6,131	Customs duty guarantee
Other financial assets, non-current	-	3,000	Capacity guarantee
Other financial assets, non-current	5,000	5,000	Land lease guarantee
	<u>\$10,084</u>	<u>\$14,131</u>	

9. Contingencies and Unrecognized Commitments

The Group entered into several royalty agreements under which royalties are paid based on certain percentages of related product sales.

The Company's limit of the guarantee / endorsement and actual amount provided for subsidiaries are NT\$215,246 thousand and NT\$25,805 thousand, respectively, as of December 31, 2020.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

The Board of Directors of the Company approved an investment of NT\$300,000 thousand in TGWest Asia Partners II (Taiwan), L.P. on March 19, 2021.

12. Financial instruments

A. Categories of financial instruments

	As of	
	December 31, 2020	December 31, 2019
<u>Financial assets</u>		
Financial assets at fair value through profit or loss:		
Mandatorily measured at fair value through profit or loss	\$29,631	\$18,627
Financial assets at fair value through other comprehensive income	2,524,698	1,449,941
Financial assets measured at amortized cost:		
Cash and cash equivalents (exclude cash on hand)	4,291,912	\$4,719,223
Trade receivables	1,455,523	787,157
Other receivables	35,985	43,872
Refundable deposits	10,028	5,737
Other financial assets, non-current	997,199	14,131
Subtotal	6,790,647	5,570,120
Total	\$9,344,976	\$7,038,688
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Short-term borrowings	\$415,300	\$-
Trade and other payables	1,640,900	1,284,139
Deposits received	6,524	5,276
Lease liabilities	187,994	203,629
Total	\$2,250,718	\$1,493,044

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. Financial risk management objectives and policies

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

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

C. Market risk

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

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

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenues or expenses are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

Certain foreign currency receivables and payables are denominated in the same foreign currencies, therefore natural hedge applies. Hedge accounting is not applied as they did not qualify for hedge accounting criteria. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

When NTD strengthens/weakens against USD by 5%, the profit for the years ended December 31, 2020 and 2019 would decrease/increase by NT\$97,772 thousand and NT\$35,841 thousand, respectively, the equity would decrease/increase by NT\$26,668 thousand and NT\$78,059 thousand, respectively.

When NTD strengthens/weakens against MYR by 5%, the equity for the years ended December 31, 2020 and 2019 would decrease/increase by NT\$31,004 thousand and NT\$38,923 thousand, respectively.

When NTD strengthens/weakens against EUR by 5%, the equity for the years ended December 31, 2020 and 2019 would decrease/increase by NT\$446 thousand and NT\$391 thousand, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's loans at floating interest rates.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period, including borrowings with variable interest rates. At the reporting date, a change of 1% of interest rate in a reporting period could cause the profit for the years ended December 31, 2020 and 2019 to decrease/increase by NT\$4,153 thousand and nil, respectively.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Equity price risk

The fair values of the Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's listed and unlisted equity securities are classified as equity instrument investments measured at fair value through other comprehensive income. The Group manages the equity price risk through placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors review and approve all significant equity investment decisions.

For the years ended December 31, 2020 and 2019, a change of 20% in the price of the listed companies stocks classified as equity instrument investments measured at fair value through other comprehensive income could have an impact of NT\$241,720 thousand and NT\$121,569 thousand, respectively, on the equity attributable to the Group.

Please refer to Note 12.H for sensitivity analysis information of other equity instruments whose fair value measurement is categorized under Level 3.

D. Credit risk management

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

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

As of December 31, 2020 and 2019, receivables from top ten customers represent 94% and 87% of the total trade receivables of the Group, respectively. The credit concentration risk of other receivables is insignificant.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Credit risk from balances with banks, fixed income securities and other financial instruments is managed by the Group's financial department in accordance with the Group's policy. The Group only transacts with counterparties approved by the internal control procedures, which are banks and companies with good credit rating. Consequently, there is no significant credit risk for these counter parties.

The Group adopted IFRS 9 to assess the expected credit losses. The loss allowance of trade receivables is measured at lifetime expected credit losses. For the impairment assessment method and related indicators of trade receivables, please refer to Note 6(17).

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

E. Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents, highly liquid equity investments and bank borrowings. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest.

Non-derivative financial liabilities

	<u>Less than 1 year</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
As of December 31, 2020					
Short-term borrowings	\$418,532	\$-	\$-	\$-	\$418,532
Trade and other payables	1,640,900	-	-	-	1,640,900
Lease liabilities (Note)	22,937	30,355	18,071	160,992	232,355
Deposits received	-	6,524	-	-	6,524
As of December 31, 2019					
Trade and other payables	\$1,284,139	\$-	\$-	\$-	\$1,284,139
Lease liabilities (Note)	22,081	31,702	21,060	168,533	243,376
Deposits received	-	5,276	-	-	5,276

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Note: Information about the maturities of lease liabilities is provided in the table below:

	Maturities					
	Less than	6 to 10		11 to 15	>15 years	Total
	1 year	1 to 5 years	years	years		
As of December 31, 2020						
Lease liabilities	\$22,937	\$48,426	\$30,228	\$30,228	\$100,536	\$232,355
As of December 31, 2019						
Lease liabilities	\$22,081	\$52,762	\$31,723	\$30,228	\$106,582	\$243,376

F. Reconciliation of liabilities arising from financing activities

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

	Short-term borrowings	Lease liabilities
As of January 1, 2020	\$-	\$203,629
Cash flows	417,265	(24,059)
Non-cash changes	-	9,059
Foreign exchange movement	(1,965)	(635)
As of December 31, 2020	\$415,300	\$187,994

Reconciliation of liabilities for the year ended December 31, 2019:

	Lease liabilities
As of January 1, 2019	\$214,371
Cash flows	(20,754)
Non-cash changes	10,455
Foreign exchange movement	(443)
As of December 31, 2019	\$203,629

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

G. Fair value of financial instruments

(a) The methods and assumptions applied in determining the fair value of financial instruments:

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

- i. The carrying amount of cash and cash equivalents, receivables and payables approximate their fair value due to their short maturities.
- ii. For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and funds).
- iii. Fair value of equity instruments without active market (including unlisted equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information.
- iv. Fair value of debt instruments, bank loans and other non-current liabilities without active market quotation is determined using counterparties' quotation or pricing models. The pricing models are based on discounted cash flow analysis and the interest rate and discounted rates are selected with reference to those of similar financial instruments.

(b) Fair value of financial instruments measured at amortized cost

The carrying amount of the Group's financial assets and liabilities measured at amortized cost approximate their fair value.

(c) Fair value measurement hierarchy for financial instruments

Please refer to Note 12.H for fair value measurement hierarchy for financial instruments of the Group.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

H. Fair value measurement hierarchy

(a) Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

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

Except as stated in Note 6.F, the Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

As of December 31, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss				
Funds	\$15,581	\$-	\$-	\$15,581
Convertible note	-	-	14,050	14,050

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Level 1	Level 2	Level 3	Total
Equity instrument				
investments measured at				
fair value through other				
comprehensive income				
Stocks	1,208,601	-	1,316,097	2,524,698
Total	\$1,224,182	\$-	\$1,330,147	\$2,554,329

As of December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value				
through profit or loss				
Funds	\$18,627	\$-	\$-	\$18,627
Equity instrument				
investments measured at				
fair value through other				
comprehensive income				
Stocks	607,844	-	842,097	1,449,941
Total	\$626,471	\$-	\$842,097	\$1,468,568

Transfers between Level 1 and Level 2 during the period

For the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation of Level 3 fair value measurements of financial instruments

Reconciliation for fair value measurements in Level 3 of the fair value hierarchy for movements during the period is as follows:

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Assets	
	At fair value through profit or loss	At fair value through other comprehensive income
	Convertible notes	Stocks
Beginning balances as of January 1, 2020	\$-	\$842,097
Total gains and losses recognized for the year ended December 31, 2020:		
Amount recognized in profit or loss (presented in “other gains and losses”)	(594)	-
Amount recognized in other comprehensive income (presented in “unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)	-	402,872
Acquisition/issues for the year ended December 31, 2020	14,644	110,016
Disposal/settlements for the year ended December 31, 2020	-	(36,444)
Exchange differences	-	(2,444)
Ending balances as of December 31, 2020	<u>\$14,050</u>	<u>\$1,316,097</u>

	Assets	
	At fair value through other comprehensive income	Stocks
Beginning balances as of January 1, 2019		\$610,918
Total gains and losses recognized for the year ended December 31, 2019:		
Amount recognized in other comprehensive income (presented in “unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income”)		114,567
Acquisition/issues for the year ended December 31, 2019		119,222
Disposal/settlements for the year ended December 31, 2019		(1,875)
Exchange differences		(735)
Ending balances as of December 31, 2019		<u>\$842,097</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Total gains and losses recognized in the table above contain losses related to assets on hand as of December 31, 2020 in the amount of NT\$594 thousand.

Information on significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within Level 3 of the fair value hierarchy is as follows:

As of December 31, 2020

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
At fair value through other comprehensive income					
Stocks	Market approach	Price-Book ratio of similar entities	0.85-15.86	The higher the Price-Book ratio of similar entities, the higher the fair value estimated	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in the Group's equity by NT\$15,564 thousand
		Discount for lack of marketability and control	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability and control would result in a (decrease) increase in the Group's equity by NT\$86,213 thousand
		Recent financing activities price of investees	NT\$30-NT\$32.76	Use recent financing activities price of investees as fair value	10% increase (decrease) in the price of financing activities would result in an increase (decrease) in the Group's equity by NT\$29,833 thousand

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

As of December 31, 2019

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value	Sensitivity of the input to fair value
Financial assets:					
At fair value through other comprehensive income					
Stocks	Market approach	Price-Book ratio of similar entities	0.68-6.95	The higher the Price-Book ratio of similar entities, the higher the fair value estimated	10% increase (decrease) in the Price-Book ratio of similar entities would result in an increase (decrease) in the Group's equity by NT\$8,928 thousand
		Discount for lack of marketability and control	10%	The higher the discount for lack of marketability, the lower the fair value of the stocks	10% increase (decrease) in the discount for lack of marketability and control would result in a (decrease) increase in the Group's equity by NT\$43,844 thousand
		Recent financing activities price of investees	NT\$10-NT\$34.48	Use recent financing activities price of investees as fair value	10% increase (decrease) in the price of financing activities would result in an increase (decrease) in the Group's equity by NT\$31,438 thousand

Valuation process used for fair value measurements categorized within Level 3 of the fair value hierarchy

The Group's financial department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

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

As of December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties				
(please refer to Note 6(8))	\$-	\$-	\$189,340	\$189,340

As of December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Investment properties				
(please refer to Note 6(8))	\$-	\$-	\$197,955	\$197,955

I. Significant assets and liabilities denominated in foreign currencies

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

	December 31, 2020		
	Foreign currency		NTD
	(thousand)	Exchange rate	(thousand)
Financial assets			
Monetary item:			
USD	\$113,073	28.10	\$3,177,359
MYR	45,080	6.994	315,266
CNY	11,531	4.297	49,547
JPY	16,847	0.273	4,592
EUR	122	34.55	4,218

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

December 31, 2020			
	Foreign currency		NTD
	(thousand)	Exchange rate	(thousand)
Financial assets			
Non-monetary item:			
USD	\$1,432	28.10	\$40,228
Financial liabilities			
Monetary item:			
USD	28,917	28.10	812,573
MYR	5,264	6.994	36,814
JPY	14,397	0.273	3,924
EUR	61	34.55	2,112
December 31, 2019			
	Foreign currency		NTD
	(thousand)	Exchange rate	(thousand)
Financial assets			
Monetary item:			
USD	\$84,354	29.98	\$2,528,927
MYR	86,452	7.325	633,235
CNY	10,666	4.304	45,903
JPY	43,365	0.276	11,967
EUR	100	33.61	3,344
Financial assets			
Non-monetary item:			
USD	1,466	29.98	43,939
Financial liabilities			
Monetary item:			
USD	12,499	29.98	374,728
MYR	3,616	7.325	26,485
CNY	836	4.304	3,597
JPY	10,255	0.276	2,830
EUR	54	33.61	1,823

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Various currencies constitute the Group's consolidated entities' functional currencies, and hence the Group is not able to disclose the information of exchange gains and losses of monetary financial assets and liabilities by each significant assets and liabilities denominated in foreign currencies. The foreign exchange loss was NT\$131,704 thousand and NT\$24,951 thousand for the years ended December 31, 2020 and 2019, respectively.

J. Capital management

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

PIXART IMAGING INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)****13. Other disclosure**

A. The following are the additional disclosures for the Company and its affiliates :

(a) Financing provided to others for the year ended December 31, 2020: None.

(b) Endorsement/guarantee provided to others for the year ended December 31, 2020:

No.	Endorsement /Guarantee Provider	Guaranteed Party		Limits on Endoresment/ Guarantee Amount Provided to Each Guaranteed Party (Note 1)	Maximum Balance for the Period	Ending Balance (Note 3)	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement / Guarantee to Net Equity per Latest Financial Statement	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiary in Mainland China
		Name	Nature of Relationship										
0	PixArt Imaging Inc.	PixArt Imaging (Penang) SDN. BHD.	Subsidiary	\$891,638	\$37,431 (US\$1,210,000)	\$34,001 (US\$1,210,000)	\$925	\$-	0.38%	\$2,674,913	Y	N	N
0	PixArt Imaging Inc.	Audiowise Technology Inc.	Subsidiary	\$891,638	\$199,613 (US\$6,450,000)	\$181,245 (US\$6,450,000)	\$24,880	\$-	2.03%	\$2,674,913	Y	N	N

Note 1: The total amount of the guarantee provided by the Company to any individual entity shall not exceed ten percent (10%) of the Company's net equity.

Note 2: The total amount of guarantee shall not exceed thirty percent (30%) of the Company's net equity.

Note 3: Ending Balance in foreign currencies are translated into New Taiwan Dollars using the exchange rate of balance sheet date.

PIXART IMAGING INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

(c) Securities held as of December 31, 2020 (excluding subsidiaries, associates and joint ventures):

Holding Company Name	Marketable Securities Type	Marketable Securities Name	Relationship with the Company	Financial Statement Account	December 31, 2020				
					Shares/Units	Carrying Value (NT\$'000)	Percentage of Ownership	Fair Value (NT\$'000)	Note
The Company	Stocks	Shieh Yong Investment Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	34,686,000	\$722,172	4.55%	\$722,172	-
	Stocks	TriKnight Capital Corporation.	-	Financial assets at fair value through other comprehensive income, noncurrent	14,642,500	\$139,959	2.50%	\$139,959	-
	Stocks	United Microelectronics Corp.	-	Financial assets at fair value through other comprehensive income, current	16,000,000	\$754,400	0.13%	\$754,400	-
	Fund	Cathay Taiwan Money Market	-	Financial assets at fair value through profit or loss, current	1,243,080	\$15,581	-	\$15,581	-
Yuan-Xiang Investment Inc.	Stocks	Raynergy Tek Incorporation	The Company acts one of its directors	Financial assets at fair value through other comprehensive income, noncurrent	3,650,000	\$41,427	10.58%	\$41,427	-
	Stocks	LI TV (TAIWAN) INC.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,430,000	\$72,900	5.86%	\$72,900	-
	Stocks	ACT Genomics Holdings	-	Financial assets at fair value through other comprehensive income, noncurrent	1,000,000	\$32,765	1.03%	\$32,765	-

PIXART IMAGING INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Holding Company Name	Marketable Securities Type	Marketable Securities Name	Relationship with the Company	Financial Statement Account	December 31, 2020				
					Shares/Units	Carrying Value (NT\$'000)	Percentage of Ownership	Fair Value (NT\$'000)	Note
Yuan-Xiang Investment Inc.	Stocks	Kingshine Entertainment, Inc.	-	Financial assets at fair value through other comprehensive income, noncurrent	612,360	\$15,419	3.59%	\$15,419	-
	Stocks	Theia medical technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,353,608	\$77,618	4.39%	\$77,618	-
	Stocks	Fittech Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	1,515,454	\$253,081	2.26%	\$253,081	-
	Stocks	Forest Water Environmental Engineering Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	520,000	\$21,320	0.39%	\$21,320	-
	Stocks	GEM Services, Inc.	-	Financial assets at fair value through other comprehensive income, noncurrent	30,580	\$2,086	0.02%	\$2,086	-
	Stocks	Jason's Entertainment Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	623,491	\$15,681	3.91%	\$15,681	-
	Stocks	Samebest Co., LTD.	-	Financial assets at fair value through other comprehensive income, noncurrent	279,092	\$15,043	0.74%	\$15,043	-
	Stocks	Long Time Technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	727,629	\$24,652	0.60%	\$24,652	-

PIXART IMAGING INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Holding Company Name	Marketable Securities Type	Marketable Securities Name	Relationship with the Company	Financial Statement Account	December 31, 2020				
					Shares/Units	Carrying Value (NT\$'000)	Percentage of Ownership	Fair Value (NT\$'000)	Note
Yuan-Xiang Investment Inc.	Stocks	Jing-Jan Retail Business Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	675,000	\$30,442	1.13%	\$30,442	-
	Stocks	Wiwynn Corporation	-	Financial assets at fair value through other comprehensive income, noncurrent	15,000	\$10,560	0.01%	\$10,560	-
	Stocks	Ultracker Technology Co. Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,500,000	\$21,175	18.28%	\$21,175	-
	Stocks	Vertex Growth (SG) LP	-	Financial assets at fair value through other comprehensive income, noncurrent	-	\$61,844	1.73%	\$61,844	-
	Stocks	Yuen Foong Yu Consumer Products CO., LTD.	-	Financial assets at fair value through other comprehensive income, noncurrent	800,000	\$37,176	0.33%	\$37,176	-

PIXART IMAGING INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)**

Holding Company Name	Marketable Securities Type	Marketable Securities Name	Relationship with the Company	Financial Statement Account	December 31, 2020				
					Shares/Units	Carrying Value (NT\$'000)	Percentage of Ownership	Fair Value (NT\$'000)	Note
Yuan-Xiang Investment Inc.	Stocks	Ace Edulink Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	300,000	\$44,160	1.09%	\$44,160	-
	Convertible Note	Gemini Data, Inc.	-	Financial assets at fair value through profit or loss, noncurrent	-	\$14,050	-%	\$14,050	-
Yuan-Feng Investment Inc.	Stocks	LI TV (TAIWAN) INC.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,470,000	\$74,100	5.96%	\$74,100	-
PixArt Investment (SAMOA) Ltd.	Stocks	ACT Genomics Holdings	-	Financial assets at fair value through other comprehensive income, noncurrent	1,731,090	\$56,718	1.78%	\$56,718	-

- (d) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock for the year ended December 31, 2020: None.
- (e) Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None.
- (f) Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None.
- (g) Total purchase from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

- (h) Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None.
 (i) Information about the derivative financial instrument transaction: None.
 (j) Others: Intercompany relationships and significant intercompany transactions for the year ended December 31, 2020:

NO	Company Name	Counter Party	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms	Percentage of Consolidated Revenue or Total Assets
0	PixArt Imaging Inc.	PrimeSensor Technology Inc.	1	Operating revenue	\$4,142	30-60 days	0.05%
			1	Rental revenue	\$819	-	0.01%
0	PixArt Imaging Inc.	Audiowise Technology Inc.	1	Trade receivables from related parties	\$4,561	30-60 days	0.04%
			1	Operating revenue	\$18,743		0.23%
			1	Other receivables from related parties	\$637	-	0.01%
			1	Temporary credits	\$43	-	0.00%
			1	Advance rent receipts	\$412	-	0.00%
			1	Deposits received	\$823	-	0.01%
			1	Rental revenue	\$4,993	-	0.06%
			1	Other revenue	\$2,002	-	0.02%
0	PixArt Imaging Inc.	PixArt Germany GmbH	1	Trade payables to related party	\$2,363	In accordance with agreements	0.02%
			1	Operating expenses	\$7,646		0.09%
0	PixArt Imaging Inc.	PixArt Japan K.K.	1	Trade payables to related party	\$7,975	In accordance with agreements	0.07%
			1	Operating expenses	\$43,869		0.54%
1	Audiowise Technology Inc.	PixArt Imaging (USA), INC.	3	Trade payables to related party	\$2,839	In accordance with agreements	0.02%
			3	Operating expenses	\$37,320		0.46%

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

NO	Company Name	Counter Party	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms	Percentage of Consolidated Revenue or Total Assets
2	PixArt International (SAMOA) Ltd.	PixArt Technology (Shenzhen) Co., Ltd.	3	Prepaid expense - related party	\$682	In accordance with agreements	0.01%
			3	Operating expenses	\$53,992		0.66%
2	PixArt International (SAMOA) Ltd.	PixArt Imaging (USA), INC.	3	Trade payables to related party	\$3,144	In accordance with agreements	0.03%
			3	Operating expenses	\$42,744		0.52%

Note 1: Inter-company relationships' and significant inter-company transactions codes were listed as follows:

- A. The Company: 0.
- B. Subsidiaries were assigned numbers which started from 1.

Note 2: Relation codes were listed as follows:

- A. The Company to subsidiaries.
- B. Subsidiaries to the Company.
- C. Subsidiaries to subsidiaries.

Note 3: Calculation of the percentage was listed as follows:

- A. Ratio of assets or liabilities to consolidated assets. Ratio of revenues or expenses to consolidated gross sales.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. Names, locations, and related information of investees over which the Company exercises significant influence as of December 31, 2020:

D: Names, locations, and related information of investees over which the Company exercises significant influence as of December 31, 2020:										
Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (NT\$'000)		Balance as of December 31, 2020			Net Income (Losses) of the Investee (NT\$'000)	Investment Income (Loss) Recognized (NT\$'000)
				December 31,		Shares	Percentage of Ownership (%)	Carrying Value (NT\$'000)		
				2020	2019					
The Company	PixArt International (SAMOA) Ltd.	SAMOA	Investment activities	USD\$4,356,000	USD\$4,356,000	4,356,000	100.00	\$1,074,439	\$47,597	\$47,597
	Yuan-Xiang Investment Inc.	Taiwan	Investment activities	\$1,600,000	\$1,600,000	112,954,577	100.00	\$1,268,012	\$(10,946)	\$(10,946)
	Yuan-Feng Investment Inc.	Taiwan	Investment activities	\$420,000	\$420,000	12,682,294	100.00	\$125,798	\$(15,915)	\$(15,915)
	Audiowise Technology Inc.	Taiwan	IC design	\$251,000	\$251,000	25,100,000	83.67	\$123,631	\$(120,768)	\$(100,787)
	PixArt Imaging Finland Oy	Finland	Technical Support activities	Note 5	\$-	-	100.00	\$-	\$-	\$
Yuan-Xiang Investment Inc.	PrimeSensor Technology Inc.	Taiwan	IC design	Note 3	\$588,803	-	-	\$-	\$(36,208)	Note 1
	Yuan-Yao Technology Inc.	Taiwan	Manufacture	Note 4	\$20,000	-	-	\$-	\$(158)	Note 1
	YuanXiang Investment (SAMOA) Ltd.	SAMOA	Investment activities	USD\$2,710,220	USD\$2,710,220	2,710,220	100.00	\$87,930	\$(442)	Note 1
Yuan-Feng Investment Inc.	PrimeSensor Technology Inc.	Taiwan	IC design	Note 3	\$383,132	-	-	\$-	\$(36,208)	Note 1
	Audiowise Technology Inc.	Taiwan	IC design	\$6,052	\$5,850	605,000	2.02	\$2,974	\$(120,768)	Note 1
PrimeSensor Technology Inc.	PrimeSensor Technology (SAMOA) Ltd.	SAMOA	Investment activities	Note 2	\$14,155	-	-	\$-	\$4	Note 1
PixArt International (SAMOA) Ltd.	PixArt Imaging (USA) Inc.	USA	Technical Support activities	USD\$1,000,000	USD\$1,000,000	10,000	100.00	\$71,906	\$2,689	Note 1
	PixArt Imaging (Penang) SDN. BHD.	MALAYSIA	IC design	MYR\$20,000,000	MYR\$20,000,000	20,000,000	100.00	\$620,088	\$178,706	Note 1

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (NT\$'000)		Balance as of December 31, 2020			Net Income (Losses) of the Investee (NT\$'000)	Investment Income (Loss) Recognized (NT\$'000)
				December 31,		Shares	Percentage of Ownership (%)	Carrying Value (NT\$'000)		
				2020	2019					
PixArt International (SAMOA) Ltd.	ePlan Technology (SAMOA) Ltd.	SAMOA	Technical Support activities	Note 2	USD\$3,318,434	-	-	\$-	\$-	Note 1
	YuanXiang Technology (SAMOA) Ltd.	SAMOA	Investment activities	USD\$7,073,990	USD\$7,073,990	7,073,990	100.00	\$16,825	\$(5,408)	Note 1
	PixArt Technology (SAMOA) Ltd.	SAMOA	Investment activities	USD500,000	USD500,000	500,000	100.00	\$8,025	\$405	Note 1
	PixArt Investment (SAMOA) Ltd.	SAMOA	Investment activities	USD\$3,500,100	USD\$2,900,100	3,500,100	100.00	\$62,111	\$(12,058)	Note 1
	PixArt Germany GmbH	Germany	Technical Support activities	EUR\$300,000	EUR\$300,000	300,000	100.00	\$8,913	\$380	Note 1
YuanXiang Technology (SAMOA) Ltd.	PixArt Japan K.K.	Japan	Technical Support activities	USD\$518,039	USD\$518,039	1,000	100.00	\$16,460	\$(4,951)	Note 1
YuanXiang Investment (SAMOA) Ltd.	CMC Capital Investments, L.P.	CAYMAN	Investment activities	USD\$2,247,696	USD\$2,247,696	-	20.00	\$40,228	\$18,168	Note 1

Note1: Equity pick-up has been included in investment gain/loss from subsidiaries.

Note2: ePlan Technology (SAMOA) Ltd. and PrimeSensor Technology (SAMOA) Ltd. completed the liquidation process in the first quarter of 2020.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Note3: PrimeSensor Technology Inc. was dissolved due to the merger with the Company in October 2020.

Note4: Yuan Yao was dissolved by the Board of Directors on February 17, 2020, and the related liquidation process has been completed.

Note5: PixArt Imaging Finland Oy was incorporated in October 2020. As of December 31, 2020, the capital injection of PixArt Imaging Finland Oy has not been completed.

C. Information of investment in mainland China for the year ended December 31, 2020.

Investee Company	Main Businesses and Products	Paid-in Capital (NT\$'000)	Method of Investment (Note 1)	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2020 (NT\$'000)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2020 (NT\$'000)	Net Income (Loss) of the Investee (NT\$'000)	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2) (NT\$'000)	Carrying Amount as of December 31, 2020 (NT\$'000)	Accumulated Repatriation of Investment Income as of December 31, 2020 (NT\$'000)
					Outward	Inward						
PixArt Technology (Shenzhen) Co., Ltd.	Technical support activities	\$15,520 (US\$500,000)	(ii) PixArt Technology (SAMOA) Ltd.	\$15,520 (US\$500,000)	\$-	\$-	\$15,520 (US\$500,000)	\$405	100%	\$405	\$7,889	\$-

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2020 (NT\$'000)	Investment Amount Authorized by the Investment Commission, MOEA (NT\$'000)	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA (NT\$'000)
\$15,520 (US\$500,000)	\$15,520 (US\$500,000)	\$5,349,825

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

Note 1: The methods for engaging in investment in Mainland China include the following:

- (i) Direct investment in Mainland China.
- (ii) Indirectly investment in Mainland China through companies registered in a third region.
- (iii) Other methods.

Note 2: The investment income (loss) recognized in current period was audited by the auditors of the parent company.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

14. Segment Information

(1) General Information

The major sales of the Group come from production and sale of COMS image sensor and related ICs. The chief operating decision maker reviews the overall operating results to make decisions about resources to be allocated to and evaluates the overall performance. Segment performance is evaluated based on profit or loss and is measured consistently with the significant accounting policies in Note 4 of the consolidated financial statements. Therefore, the Group is aggregated into a single segment.

(2) Geographical information

a. Revenue from external customers

	For the years ended December 31,	
	2020	2019
Taiwan	\$5,374,936	\$4,150,316
China (Hong Kong)	2,342,333	1,731,096
Japan	338,244	137,296
Others	92,504	56,312
Total	<u>\$8,148,017</u>	<u>\$6,075,020</u>

Revenues are presented by customers' country.

b. Non-current assets

	As of	
	December 31, 2020	December 31, 2019
Taiwan	\$1,450,455	\$1,075,806
Malaysia	48,431	57,119
Japan	10,481	9,347
China	9,200	14,240
Others	1,261	5,343
Total	<u>\$1,519,828</u>	<u>\$1,161,855</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts are expressed in thousands of New Taiwan Dollars unless otherwise stated)

(3) Major customers

Revenue from external customers representing over 10% of the Group's consolidated revenues is as follows:

Customers	For the years ended December 31,	
	2020	2019
	Amounts	Amounts
A	\$3,101,517	\$2,215,723
B	1,017,218	905,268
C	890,197	712,538
	<u>\$5,008,932</u>	<u>\$3,833,529</u>