

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 ACCOUNTANTS
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2021 AND 2020**

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.

Review Report of Independent Accountants Translated from Chinese

To PixArt Imaging Inc.

Instruction

We have reviewed the accompanying consolidated balance sheets of PixArt Imaging Inc. and its subsidiaries as of March 31, 2021 and 2020, the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2021 and 2020, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of PixArt Imaging Inc. and its subsidiaries as of March 31, 2021 and 2020, their consolidated financial performance and cash flows for the three-month periods ended March 31, 2021 and 2020, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard No. 34, “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Kuo, Shao-Pin

Chiu, Wan-Ju

Ernst & Young

CERTIFIED PUBLIC ACCOUNTANTS

April 27, 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 review 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 March 31, 2021, December 31, 2020, and March 31, 2020

(March 31, 2021 and 2020 are unaudited)

(Expressed in Thousands of New Taiwan Dollars)

Assets	Notes	March 31, 2021	December 31, 2020	March 31, 2020
Current assets				
Cash and cash equivalents	4, 6(1)	\$ 4,812,231	\$ 4,292,172	\$ 4,805,908
Financial assets at fair value through profit or loss, current	4, 6(2)	15,755	15,581	15,541
Financial assets at fair value through other comprehensive income, current	4, 6(3)	803,200	754,400	218,400
Trade receivables	4, 6(4), 6(17)	1,444,918	1,455,523	951,730
Other receivables		48,490	35,985	52,046
Inventories	4, 6(5)	793,737	769,456	860,715
Prepayments		66,723	64,778	80,581
Other current assets		-	-	226
Total current assets		<u>7,985,054</u>	<u>7,387,895</u>	<u>6,985,147</u>
Non-current assets				
Financial assets at fair value through profit or loss, non-current	4, 6(2)	14,268	14,050	-
Financial assets at fair value through other comprehensive income, non-current	4, 6(3)	2,107,242	1,770,298	901,236
Investments accounted for using the equity method	4, 6(6)	16,536	40,228	44,269
Property, plant and equipment	4, 6(7)	687,409	681,678	688,505
Right-of-use assets	4, 6(18)	186,490	184,514	196,299
Investment property, net	4, 6(8)	255,440	187,231	40,408
Intangible assets	4, 6(9)	285,562	304,841	131,151
Deferred tax assets	4	133,194	141,095	158,323
Other non-current assets	6(10)	130,149	161,564	129,934
Refundable deposits		9,019	10,028	5,763
Other financial assets, non-current	6(11), 8	1,012,480	997,199	14,128
Total non-current assets		<u>4,837,789</u>	<u>4,492,726</u>	<u>2,310,016</u>
Total assets		<u>\$ 12,822,843</u>	<u>\$ 11,880,621</u>	<u>\$ 9,295,163</u>

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 March 31, 2021, December 31, 2020, and March 31, 2020

(March 31, 2021 and 2020 are unaudited)

(Expressed in Thousands of New Taiwan Dollars)

Liabilities and equity	Notes	March 31, 2021	December 31, 2020	March 31, 2020
Current liabilities				
Short-term borrowings	6(12)	\$ 460,955	\$ 415,300	\$ 20,000
Contract liabilities, current	6(16)	6,961	16,951	17,016
Trade payables		597,438	559,943	511,542
Other payables	6(19)	1,135,180	1,080,957	797,055
Current tax liabilities		335,531	267,638	166,409
Lease liabilities, current	4, 6(18)	23,898	21,253	21,977
Other current liabilities		21,853	18,993	52,490
Total current liabilities		2,581,816	2,381,035	1,586,489
Non-current liabilities				
Deferred tax liabilities	4	369,854	367,700	460,471
Lease liabilities, non-current	4, 6(18)	166,404	166,741	176,729
Net defined benefit liabilities, non-current	4, 6(13)	21,004	21,135	20,893
Deposits received		6,009	6,524	4,585
Total non-current liabilities		563,271	562,100	662,678
Total liabilities		3,145,087	2,943,135	2,249,167
Equity attributable to owners of the parent				
Share capital	6(14)			
Common stock		1,418,008	1,415,545	1,393,340
Capital collected in advance		4,891	235	5,655
Capital surplus	6(14), 6(15)	2,414,462	2,399,862	2,077,543
Retained earnings	6(14), 6(24)			
Legal reserve		1,187,926	1,187,926	1,104,139
Special reserve		256,064	256,064	375,769
Undistributed earnings		3,625,853	3,198,978	2,638,368
Other equity	4	756,902	457,765	(587,213)
Equity attributable to owners of the parent		9,664,106	8,916,375	7,007,601
Non-controlling interests	4, 6(14)	13,650	21,111	38,395
Total equity		9,677,756	8,937,486	7,045,996
Total liabilities and equity		\$ 12,822,843	\$ 11,880,621	\$ 9,295,163

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 COMPREHENSIVE INCOME

For the three-month periods ended March 31, 2021 and 2020

(For the three-month periods ended March 31, 2021 and 2020 are unaudited)

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

Description	Notes	For the three-month periods ended March 31,	
		2021	2020
Operating revenues	4, 6(16)	\$ 2,244,996	\$ 1,695,060
Operating costs	6(5), 6(19)	(961,091)	(721,039)
Gross profit		1,283,905	974,021
Operating expenses	6(17), 6(19)		
Selling expenses		(107,697)	(99,483)
Administrative expenses		(142,998)	(146,731)
Research and development expenses		(572,894)	(425,460)
Expected credit gains (losses)		695	(2,239)
Total operating expenses		(822,894)	(673,913)
Operating income		461,011	300,108
Non-operating income and expenses			
Interest income	6(20)	7,732	17,168
Other income	6(20)	29,090	2,900
Other gains and losses	6(20)	19,856	11,251
Finance costs	6(20)	(1,854)	(1,156)
Share of profit or loss of associates and joint ventures accounted for using the equity method	4, 6(6)	(2,023)	(29)
Total non-operating income and expenses		52,801	30,134
Income before income tax		513,812	330,242
Income tax expense	4, 6(22)	(94,943)	(64,982)
Net income		418,869	265,260
Other comprehensive income	6(21), 6(22)		
Not to be reclassified to profit or loss in subsequent periods			
Unrealized gains or losses on investments in equity instruments at fair value through other comprehensive income		244,191	(332,772)
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of foreign operations		(5,225)	(15,560)
Income tax relating to those items to be reclassified to profit or loss		1,045	3,112
Other comprehensive income (loss), net of income tax		240,011	(345,220)
Total comprehensive income		\$ 658,880	\$ (79,960)
Net income (loss) attributable to :			
Owners of the parent		\$ 426,457	\$ 270,090
Non-controlling interests		(7,588)	(4,830)
		\$ 418,869	\$ 265,260
Total comprehensive income (loss) attributable to :			
Owners of the parent		\$ 666,468	\$ (75,130)
Non-controlling interests		(7,588)	(4,830)
		\$ 658,880	\$ (79,960)
Earnings per share (NT\$)			
Basic earnings per share	4, 6(23)	\$ 3.08	\$ 1.98
Diluted earnings per share	4, 6(23)	\$ 2.98	\$ 1.92

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 three-month periods ended March 31, 2021 and 2020

(For the three-month periods ended March 31, 2021 and 2020 are unaudited)

(Expressed in thousands of New Taiwan Dollars)

Description	Equity attributable to owners of the parent										Non-controlling interests	Total equity
	Share capital		Capital surplus	Retained earnings			Other equity			Equity attributable to owners of the parent		
	Common stock	Capital collected in advance		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, 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
Net income (loss) for the three-month period ended March 31, 2020	-	-	-	-	-	270,090	-	-	-	270,090	(4,830)	265,260
Other comprehensive income (loss) for the three-month period ended March 31, 2020	-	-	-	-	-	-	(12,448)	-	(332,772)	(345,220)	-	(345,220)
Total comprehensive income (loss)	-	-	-	-	-	270,090	(12,448)	-	(332,772)	(75,130)	(4,830)	(79,960)
Share-based payment transactions	14,212	1,352	77,930	-	-	-	-	-	-	93,494	20	93,514
Restricted shares for employees	5,291	-	73,212	-	-	-	-	(56,146)	-	22,357	(4)	22,353
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	3,909	-	-	(3,909)	-	-	-
Balance as of March 31, 2020	\$ 1,393,340	\$ 5,655	\$ 2,077,543	\$ 1,104,139	\$ 375,769	\$ 2,638,368	\$ (268,512)	\$ (133,785)	\$ (184,916)	\$ 7,007,601	\$ 38,395	\$ 7,045,996
Balance as of January 1, 2021	\$ 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
Net income (loss) for the three-month period ended March 31, 2021	-	-	-	-	-	426,457	-	-	-	426,457	(7,588)	418,869
Other comprehensive income (loss) for the three-month period ended March 31, 2021	-	-	-	-	-	-	(4,180)	-	244,191	240,011	-	240,011
Total comprehensive income (loss)	-	-	-	-	-	426,457	(4,180)	-	244,191	666,468	(7,588)	658,880
Share-based payment transactions	2,527	4,656	14,536	-	-	-	-	-	-	21,719	127	21,846
Restricted shares for employees	(64)	-	64	-	-	-	-	59,544	-	59,544	-	59,544
Proceeds from disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	418	-	-	(418)	-	-	-
Balance as of March 31, 2021	\$ 1,418,008	\$ 4,891	\$ 2,414,462	\$ 1,187,926	\$ 256,064	\$ 3,625,853	\$ (322,082)	\$ (262,398)	\$ 1,341,382	\$ 9,664,106	\$ 13,650	\$ 9,677,756

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 three-month periods ended March 31, 2021 and 2020

(For the three-month periods ended March 31, 2021 and 2020 are unaudited)

(Expressed in Thousands of New Taiwan Dollars)

Description	For the three-month periods ended March 31,		Description	For the three-month periods ended March 31,	
	2021	2020		2021	2020
Cash flows from operating activities:			Cash flows from investing activities :		
Income before income tax	\$ 513,812	\$ 330,242	Acquisition of financial assets at fair value through other comprehensive income	\$ (130,659)	\$ (10,516)
Adjustments for:			Proceeds from disposal of financial assets at fair value through other comprehensive income	943	8,366
The profit or loss items which did not affect cash flows:			Proceeds from disposal of financial assets at fair value through profit or loss	-	3,106
Depreciation	23,964	20,414	Proceeds from return of capital of investments accounted for using the equity method	22,281	-
Amortization	71,419	65,332	Acquisition of property, plant and equipment	(10,210)	(46,072)
Expected credit (gains) losses	(695)	2,239	Decrease (increase) in refundable deposits	1,009	(26)
Gains on financial assets and liabilities at fair value through profit or loss, net	(392)	(20)	Acquisition of intangible assets	(20,658)	(31,327)
Interest expenses	1,854	1,156	Acquisition of investment property	(40,951)	-
Interest income	(7,732)	(17,168)	(Increase) decrease in other financial assets	(15,281)	3
Dividend income	(20,812)	-	Increase in other non-current assets	(26,054)	(50,406)
Share-based payment expenses	61,552	32,007	Net cash used in investing activities	(219,580)	(126,872)
Share of profit or loss of associates and joint ventures accounted for using the equity method	2,023	29			
Unrealized losses on foreign exchange	6,230	-			
Changes in operating assets and liabilities:					
Trade receivables	11,325	(166,773)			
Other receivables	(9,615)	(4,191)			
Inventories	(24,225)	(183,028)			
Prepayments	(6,373)	(3,307)			
Other current assets	-	188			
Contract liabilities	(9,990)	13,579			
Trade payables	37,495	61,006	Cash flows from financing activities:		
Other payables	32,117	(16,107)	Increase in short-term borrowings	39,425	20,000
Other current liabilities	2,860	2,179	Decrease in deposits received	(515)	(691)
Net defined benefit liabilities, non-current	(131)	(107)	Repayment of the principal of lease liabilities	(5,993)	(5,759)
Cash generated from operating activities	684,686	137,670	Proceeds from exercise of employee stock options	19,838	83,860
Interest received	4,842	13,185	Net cash provided by financing activities	52,755	97,410
Dividend received	20,812	-	Effect of changes in exchange rate on cash and cash equivalents	(5,673)	(15,069)
Interest paid	(1,833)	(1,156)	Increase in cash and cash equivalents	520,059	86,333
Income tax paid	(15,950)	(18,835)	Cash and cash equivalents at the beginning of the period	4,292,172	4,719,575
Net cash provided by operating activities	692,557	130,864	Cash and cash equivalents at the end of the period	\$ 4,812,231	\$ 4,805,908

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 three-month periods ended March 31, 2021 and 2020 were authorized for issue by the Board of Directors’ meeting on April 27, 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, 2021. 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 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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date Issued 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
g	Covid-19-Related Rent Concessions beyond June 30, 2021 - Amendments to IFRS 16	April 1, 2021

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

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

IFRS 10 was also amended so that the 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.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 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.

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)

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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.

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.

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 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.

G. Covid-19-Related Rent Concessions beyond June 30, 2021 – Amendments to IFRS 16

This amendment extends the practical expedient in paragraph 46A of IFRS 16 Leases for one year.

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

The consolidated financial statements of the Group for the three-month periods ended March 31, 2021 and 2020 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers ("the Regulations") and IAS 34 *Interim Financial Reporting* as endorsed and became effective by the FSC.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(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.

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.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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
			March 31, 2021	December 31, 2020	March 31, 2020	
The Company	PixArt International (SAMOA) Ltd.	Investment activities	100%	100%	100%	-
	Yuan-Xiang Investment Inc.	Investment activities	100%	100%	100%	-
	Yuan-Feng Investment Inc.	Investment activities	100%	100%	100%	-
	Audiowise Technology Inc.	IC design	83.67%	83.67%	83.67%	-
	PixArt Imaging Finland Oy	Technical support activities	100%	100%	-	1
PixArt International (SAMOA) Ltd.	PixArt Imaging (USA), Inc.	Technical support activities	100%	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
			March 31, 2021	December 31, 2020	March 31, 2020	
PixArt International (SAMOA) Ltd.	PixArt Imaging (Penang) SDN. BHD.	IC design	100%	100%	100%	-
	YuanXiang Technology (SAMOA) Ltd.	Investment activities	100%	100%	100%	-
	PixArt Investment (SAMOA) Ltd.	Investment activities	100%	100%	100%	-
	PixArt Germany GmbH	Technical support activities	100%	100%	100%	-
	PixArt Technology (SAMOA) Ltd.	Investment activities	100%	100%	100%	-
Yuan-Xiang Investment Inc.	PrimeSensor Technology Inc.	IC design	-	-	60.56%	2
	Yuan-Yao Technology Inc.	Manufacture	-	-	100%	3
	YuanXiang Investment (SAMOA) Ltd.	Investment activities	100%	100%	100%	-
Yuan-Feng Investment Inc.	PrimeSensor Technology Inc.	IC design	-	-	37.65%	2
	Audiowise Technology Inc.	IC design	2.02%	2.02%	1.95%	4
PixArt Technology (SAMOA) Ltd.	PixArt Technology (Shenzhen) Co., Ltd.	Technical support activities	100%	100%	100%	-
YuanXiang Technology (SAMOA) Ltd.	PixArt Japan K.K.	Technical support activities	100%	100%	100%	-

Note:

1. PixArt Imaging Finland Oy was incorporated in October 2020, and the capital injection has been completed on February 19, 2021.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. PrimeSensor Technology Inc. was dissolved due to the merger with the Company in October 2020. Please refer to Note 6(24) for further disclosure.
 3. Yuan Yao Technology Inc. was dissolved by the Board of Directors on February 17, 2020, and the related liquidation process has been completed.
 4. 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) Except for the accounting policies in Notes 4(5) to 4(6), the same accounting policies have been followed in the consolidated financial statements for the three-month periods ended March 31, 2021 and 2020 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2020. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2020.

(5) Post-employment benefits

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

(6) Income taxes

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The average annual effective income tax rate is estimated by current income tax expenses only. Deferred income tax is recognized and measured according to IAS 12 "*Income Tax*" and follows the same accounting policies of the Group's annual consolidated financial statements. When income tax rate changes occur in interim period, the effect on deferred income tax is recognized in profit or loss, other comprehensive income or equity at once.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Significant Accounting Judgments, Estimates and Assumptions

The same significant accounting judgments, estimates and assumptions have been followed in the consolidated financial statements for the three-month periods ended March 31, 2021 and 2020 as were applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2020. Please refer to the consolidated financial statements for the year ended December 31, 2020.

6. Contents of Significant Accounts

(1) Cash and cash equivalents

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Cash on hand	\$260	\$260	\$314
Checking and savings accounts	488,335	691,960	599,732
Time deposits	3,812,085	3,138,684	3,955,268
Cash equivalents-CP-Repo	511,551	461,268	250,594
Total	<u>\$4,812,231</u>	<u>\$4,292,172</u>	<u>\$4,805,908</u>

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

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Mandatorily measured at fair value through profit or loss:			
Funds	\$15,590	\$15,581	\$15,541
Convertible notes	14,268	14,050	-
Forward exchange contracts	165	-	-
Total	<u>\$30,023</u>	<u>\$29,631</u>	<u>\$15,541</u>
Current	\$15,755	\$15,581	\$15,541
Non-current	14,268	14,050	-
Total	<u>\$30,023</u>	<u>\$29,631</u>	<u>\$15,541</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Equity instrument investments measured at fair value through other comprehensive income			
Listed companies stocks	\$1,328,466	\$1,208,601	\$437,576
Unlisted companies stocks	1,581,976	1,316,097	682,060
Total	<u>\$2,910,442</u>	<u>\$2,524,698</u>	<u>\$1,119,636</u>
Current	\$803,200	\$754,400	\$218,400
Non-current	2,107,242	1,770,298	901,236
Total	<u>\$2,910,442</u>	<u>\$2,524,698</u>	<u>\$1,119,636</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\$20,812 thousand and nil for the three-month periods ended March 31, 2021 and 2020, 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 three-month periods ended March 31, 2021 and 2020 are as follows:

	For the three-month periods ended March 31,	
	2021	2020
The fair value of the investments at the date of derecognition	\$943	\$8,366
The cumulative gain or loss on disposal reclassified from other equity to retained earnings	418	3,909

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		
	March 31, 2021	December 31, 2020	March 31, 2020
Trade receivables (gross carrying amount)	\$1,466,859	\$1,478,184	\$966,132
Less: loss allowance	(21,941)	(22,661)	(14,402)
Total	<u>\$1,444,918</u>	<u>\$1,455,523</u>	<u>\$951,730</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		
	March 31, 2021	December 31, 2020	March 31, 2020
Raw materials	\$32,300	\$61,756	\$66,908
Supplies	98,761	91,173	49,042
Work in progress	420,699	441,853	473,593
Finished goods	241,977	174,674	271,172
Total	<u>\$793,737</u>	<u>\$769,456</u>	<u>\$860,715</u>

For the three-month periods ended March 31, 2021 and 2020, the cost of inventories recognized in expenses amounted to NT\$961,091 thousand and NT\$721,039 thousand, respectively. The cost of goods sold included reversals of inventory write-downs of NT\$7,661 thousand and NT\$9,323 thousand for the three-month periods ended March 31, 2021 and 2020, respectively. The reversals of write-downs 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					
	March 31, 2021		December 31, 2020		March 31, 2020	
	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount	Percentage of ownership
<u>Unlisted company</u>						
CMC Capital						
Investments, L.P.	<u>\$16,536</u>	20.00%	<u>\$40,228</u>	20.00%	<u>\$44,269</u>	20.00%

The share of loss of associates accounted for using the equity method was NT\$2,023 thousand and NT\$29 thousand for the three-month periods ended March 31, 2021 and 2020, respectively.

CMC Investments, L.P. processed a capital reduction and returned the capital investment of NT\$22,281 thousand for the three-month period ended March 31, 2021.

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 three-month periods ended March 31,	
	2021	2020
Loss from continuing operations	\$(2,023)	\$(29)
Other comprehensive income (loss), net of tax	-	-
Total comprehensive income (loss)	<u>\$(2,023)</u>	<u>\$(29)</u>

As of March 31, 2021, December 31, 2020, and March 31, 2020, 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		
	March 31, 2021	December 31, 2020	March 31, 2020
Owner occupied property, plant and equipment	\$641,803	\$636,040	\$642,775
Property, plant and equipment leased out under operating leases	45,606	45,638	45,730
Total	<u>\$687,409</u>	<u>\$681,678</u>	<u>\$688,505</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, 2021	\$62,611	\$458,662	\$2,729	\$202,640	\$348,161	\$-	\$1,074,803
Additions	-	-	-	9,420	13,972	-	23,392
Disposals	-	-	(84)	(62)	(1,664)	-	(1,810)
Exchange differences	-	-	(9)	(172)	(957)	-	(1,138)
As of March 31, 2021	<u>\$62,611</u>	<u>\$458,662</u>	<u>\$2,636</u>	<u>\$211,826</u>	<u>\$359,512</u>	<u>\$-</u>	<u>\$1,095,247</u>
As of January 1, 2020	\$62,611	\$298,532	\$2,988	\$179,373	\$290,047	\$800	\$834,351
Additions	-	-	-	7,097	28,769	-	35,866
Transfers from investment property	-	171,276	-	-	-	-	171,276
Disposals	-	-	(255)	(1,120)	(2,122)	-	(3,497)
Exchange differences	-	-	2	(386)	(1,682)	-	(2,066)
As of March 31, 2020	<u>\$62,611</u>	<u>\$469,808</u>	<u>\$2,735</u>	<u>\$184,964</u>	<u>\$315,012</u>	<u>\$800</u>	<u>\$1,035,930</u>
Depreciation and impairment:							
As of January 1, 2021	\$-	\$98,081	\$2,593	\$138,280	\$199,809	\$-	\$438,763
Depreciation	-	2,721	31	4,792	9,522	-	17,066
Disposals	-	-	(84)	(62)	(1,664)	-	(1,810)
Exchange differences	-	-	(4)	(105)	(466)	-	(575)
As of March 31, 2021	<u>\$-</u>	<u>\$100,802</u>	<u>\$2,536</u>	<u>\$142,905</u>	<u>\$207,201</u>	<u>\$-</u>	<u>\$453,444</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	-	2,365	31	4,087	6,972	-	13,455
Transfers from							
investment property	-	14,441	-	-	-	-	14,441
Disposals	-	-	(255)	(1,120)	(2,122)	-	(3,497)
Exchange differences	-	-	-	(223)	(1,009)	-	(1,232)
As of March 31, 2020	\$-	\$90,877	\$2,498	\$125,230	\$174,550	\$-	\$393,155
Net carrying amount as of:							
March 31, 2021	\$62,611	\$357,860	\$100	\$68,921	\$152,311	\$-	\$641,803
December 31, 2020	\$62,611	\$360,581	\$136	\$64,360	\$148,352	\$-	\$636,040
March 31, 2020	\$62,611	\$378,931	\$237	\$59,734	\$140,462	\$800	\$642,775

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

	Miscellaneous equipment
Cost:	
As of January 1, 2021 and March 31, 2021	\$46,144
As of January 1, 2020 and March 31, 2020	\$46,144
Depreciation and impairment:	
As of January 1, 2021	\$506
Depreciation	32
As of March 31, 2021	\$538
As of January 1, 2020	\$382
Depreciation	32
As of March 31, 2020	\$414

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
Net carrying amounts as of:	
March 31, 2021	\$45,606
December 31, 2020	\$45,638
March 31, 2020	\$45,730

(8) Investment property

	Land	Buildings	Total
Cost:			
As of January 1, 2021	\$119,930	\$73,408	\$193,338
Additions	50,170	18,581	68,751
As of March 31, 2021	\$170,100	\$91,989	\$262,089
As of January 1, 2020	\$-	\$215,608	\$215,608
Transfers to property, plant and equipment	-	(171,276)	(171,276)
As of March 31, 2020	\$-	\$44,332	\$44,332
Depreciation and impairment:			
As of January 1, 2021	\$-	\$6,107	\$6,107
Depreciation	-	542	542
As of March 31, 2021	\$-	\$6,649	\$6,649
As of January 1, 2020	\$-	\$17,673	\$17,673
Depreciation	-	692	692
Transfers to property, plant and equipment	-	(14,441)	(14,441)
As of March 31, 2020	\$-	\$3,924	\$3,924
Net carrying amount as of:			
March 31, 2021	\$170,100	\$85,340	\$255,440
December 31, 2020	\$119,930	\$67,301	\$187,231
March 31, 2020	\$-	\$40,408	\$40,408

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 three-month periods ended March 31,	
	2021	2020
Rental income from investment property	\$990	\$949
Less:		
Direct operating expenses from investment property generating rental income	(542)	(692)
Total	\$448	\$257

No investment property was pledged.

In February 2020, the investment property of NT\$156,835 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\$258,091 thousand, NT\$189,340 thousand and NT\$40,703 thousand as of March 31, 2021, December 31, 2020 and March 31, 2020, respectively. Except for the investment property purchased during the period, 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		
	March 31, 2021	December 31, 2020	March 31, 2020
Replacement cost (Taiwanese ping/ thousands)	\$83	\$83	\$80
Salvage value	5%	5%	5%
High clearance premium	107%	107%	107%

The fair value of the investment property purchased in February 2021 and December 2020 was NT\$68,751 thousand and NT\$137,860 thousand, respectively, 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, 2021	\$924,549	\$444,286	\$151,539	\$884	\$1,521,258
Additions-acquired separately	15,404	96	4,886	272	20,658
Exchange differences	-	(1,151)	-	-	(1,151)
As of March 31, 2021	<u>\$939,953</u>	<u>\$443,231</u>	<u>\$156,425</u>	<u>\$1,156</u>	<u>\$1,540,765</u>
As of January 1, 2020	\$756,295	\$355,032	\$96,720	\$-	\$1,208,047
Additions-acquired separately	-	429	30,898	-	31,327
Exchange differences	-	(2,025)	-	-	(2,025)
As of March 31, 2020	<u>\$756,295</u>	<u>\$353,436</u>	<u>\$127,618</u>	<u>\$-</u>	<u>\$1,237,349</u>
Amortization:					
As of January 1, 2021	\$737,761	\$384,557	\$94,055	\$44	\$1,216,417
Amortization	10,758	22,920	6,066	40	39,784
Exchange differences	-	(998)	-	-	(998)
As of March 31, 2021	<u>\$748,519</u>	<u>\$406,479</u>	<u>\$100,121</u>	<u>\$84</u>	<u>\$1,255,203</u>
As of January 1, 2020	\$703,680	\$293,425	\$74,107	\$-	\$1,071,212
Amortization	9,114	23,362	4,109	-	36,585
Exchange differences	-	(1,599)	-	-	(1,599)
As of March 31, 2020	<u>\$712,794</u>	<u>\$315,188</u>	<u>\$78,216</u>	<u>\$-</u>	<u>\$1,106,198</u>
Net carrying amount as of:					
March 31, 2021	<u>\$191,434</u>	<u>\$36,752</u>	<u>\$56,304</u>	<u>\$1,072</u>	<u>\$285,562</u>
December 31, 2020	<u>\$186,788</u>	<u>\$59,729</u>	<u>\$57,484</u>	<u>\$840</u>	<u>\$304,841</u>
March 31, 2020	<u>\$43,501</u>	<u>\$38,248</u>	<u>\$49,402</u>	<u>\$-</u>	<u>\$131,151</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 three-month periods ended	
	March 31,	
	2021	2020
Operating costs	\$17	\$215
Selling expenses	6,065	8,361
Administrative expenses	5,364	1,147
Research and development expenses	28,338	26,862
Total	<u>\$39,784</u>	<u>\$36,585</u>

(10) Other non-current assets

	As of		
	March 31,	December 31,	March 31,
	2021	2020	2020
Advance payments in equipment	\$8,265	\$38,434	\$19,029
Other non-current assets - others	109,391	109,865	93,398
Advance payments in royalties	12,493	13,265	17,507
Total	<u>\$130,149</u>	<u>\$161,564</u>	<u>\$129,934</u>

(11) Other financial assets, non-current

	As of		
	March 31,	December 31,	March 31,
	2021	2020	2020
Restricted deposits	\$1,002,396	\$987,115	\$-
Pledged time deposits	10,084	10,084	14,128
Total	<u>\$1,012,480</u>	<u>\$997,199</u>	<u>\$14,128</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		
	March 31, 2021	December 31, 2020	March 31, 2020
Unsecured bank loans	\$460,955	\$415,300	\$20,000
Interest rates (%)	0.65%~1.35%	0.70%~1.35%	1.59%

The Group's unused short-term lines of credits amounted to NT\$371,720 thousand, NT\$555,700 thousand and NT\$802,250 thousand as of March 31, 2021, December 31, 2020 and March 31, 2020, respectively.

(13) Post-employment benefits

Defined contribution plans

Expenses under the defined contribution plan for the three-month periods ended March 31, 2021 and 2020 were NT\$16,748 thousand and NT\$14,523 thousand, respectively.

Defined benefit plans

Expenses under the defined benefit plan for the three-month periods ended March 31, 2021 and 2020 were NT\$138 thousand and NT\$159 thousand, respectively.

(14) Equity

A. Share capital

The Company's authorized capital was NT\$2,000,000 thousand, 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 March 31, 2021, December 31, 2020 and March 31, 2020, respectively, with par value of NT\$10 each share. The Company's issued capital was NT\$1,418,008 thousand, NT\$1,415,545 thousand and NT\$1,393,340 thousand, divided into 141,801 thousand shares, 141,555 thousand shares and 139,334 thousand shares as of March 31, 2021, December 31, 2020 and March 31, 2020, respectively. Each share has one voting right and a right to receive dividends.

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 three-month period ended March 31, 2021, employees exercised 329 thousand shares of employee share options with a weighted average exercise price of NT\$60.28 per share, which in total amounted to NT\$19,838 thousand, of which 81 thousand shares of employee share options in the amount of NT\$4,891 thousand have not been completed the registration procedures and accounted under the capital collected in advance as of March 31, 2021. Except for abovementioned shares, as of the report date, the government approval has been successfully obtained and the registration has been completed.

For the three-month period ended March 31, 2020, employees exercised 1,441 thousand shares of employee share options with a weighted average exercise price of NT\$58.20 per share, which in total amounted to NT\$83,860 thousand, of which 93 thousand shares of employee share options in the amount of NT\$5,655 thousand have not been completed the registration procedures and accounted under the capital collected in advance as of March 31, 2020. 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 558 thousand restricted shares to employees for the three-month period ended March 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 6 thousand shares and 29 thousand shares in accordance with the restricted shares plan for the three-month periods ended March 31, 2021 and 2020, respectively. As of the report date, the government approval has been successfully obtained and the registration has been completed.

B. Capital surplus

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Additional paid-in capital - common stock	\$1,792,222	\$1,765,307	\$1,623,258
Treasury stock transactions	86,005	86,005	9,114
Donated by shareholders	3,816	3,816	3,816
Employee share options	90,759	89,194	142,292
Share options	4,271	3,955	72,086
Restricted shares for employees	429,218	443,414	218,806
Changes in ownership interests in subsidiaries	8,171	8,171	8,171
Total	<u>\$2,414,462</u>	<u>\$2,399,862</u>	<u>\$2,077,543</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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;
- (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:

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 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.

The appropriations of earnings for 2020 were resolved by the Board of Directors' meeting on April 27, 2021, subject to the resolution of the shareholders' meeting. The appropriations of earnings for 2019 were approved by the shareholders' meeting on June 12, 2020. The details of the distribution are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2020	2019	2020	2019
Legal reserve	\$151,399	\$83,787		
Special reserve	(256,064)	(119,705)		
Cash dividend (Note)	1,206,310	715,298	\$8.5 (proposed)	\$5.13

Note: The cash dividend distribution of 2020 and 2019 has been approved by the Board of Directors' meeting on April 27, 2021 and April 28, 2020.

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

D. Non-controlling interests

	For the three-month periods ended March 31,	
	2021	2020
Beginning balance	\$21,111	\$43,209
Loss attributable to non-controlling interests	(7,588)	(4,830)
Others	127	16
Ending balance	\$13,650	\$38,395

(15) Share-based payment plans

Certain employees of the Group are entitled to share-based payment as part of their remuneration; 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.

(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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Date of grant	Total number of share options granted (Units)	Total number of for an individual option holder (shares)	Exercise price of share options (NT\$) (Note)
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.

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Employee share option plan	Expected dividend yield	Expected volatility	Risk free interest rate	Expected life
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\$1,693 thousand and NT\$3,151 thousand for the three-month periods ended March 31, 2021 and 2020, respectively.

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

	For the three-month periods ended March 31,			
	2021		2020	
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	1,944	\$58.61	3,768	\$59.29
Exercised (Note)	(329)	60.28	(1,441)	58.20
Forfeited	-	-	(13)	64.10
Outstanding at end of period	1,615	58.27	2,314	59.94
Exercisable at end of period	1,459		1,508	

Note: The weighted average share price at the date of exercise of those options was NT\$185.70 and NT\$172.13 for the three-month periods ended March 31, 2021 and 2020, respectively.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The information on the outstanding employee share options plan as of March 31, 2021 and 2020 is as follows:

	Range of exercise price (NT\$)	Weighted average remaining life (years)
Outstanding share options as of March 31, 2021	\$31.40-70.80	0.85
Outstanding share options as of March 31, 2020	\$29.50-73.10	1.85

The Group did not cancel or modify the aforementioned employee share options plan for the three-month periods ended March 31, 2021 and 2020.

(b) Treasury stock to employees

For the three-month periods ended March 31, 2021 and 2020, compensation costs recognized were NT\$315 thousand and NT\$6,503 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.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(c) Restricted shares plan for employees

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

- a. 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.
- b. The attendance, motion, making speeches and voting rights in shareholders' meeting shall be executed by the custodian organization according to the trust contract.
- c. Prior to vesting conditions are reached, the restricted shares are entitled to dividends without limitation.

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 6 thousand shares and 29 thousand shares due to employees' resignation, with par value of NT\$10 each share, during the three-month periods ended March 31, 2021 and 2020, respectively. Please refer to Note 6(14)A for further disclosure.

Information of the restricted shares for employee as of March 31, 2021 is disclosed as follows:

Grant date	Shares issued (shares)	Exercise price (NT\$)	Fair value per share (NT\$)	Shares restricted as of March 31, 2021 (shares)
2018.09.18	1,935,030	\$-	\$117.5	731,180
2019.04.16	64,970	\$-	\$91.2	43,589
2020.02.03	558,050	\$-	\$145.5	405,413
2020.08.21	37,000	\$-	\$207.5	37,000
2020.10.08	1,800,000	\$-	\$171.0	1,793,690
2020.11.20	32,290	\$-	\$173.5	32,290

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The restricted shares granted to employees were measured at fair value, which resulted in a compensation expense amounting to NT\$59,544 thousand and NT\$22,353 thousand for the three-month periods ended March 31, 2021 and 2020, respectively. As of March 31, 2021 and 2020, balance of Capital Surplus-Restricted Shares for Employees was NT\$429,218 thousand and NT\$218,806 thousand, respectively, and Employee Unearned Reward was NT\$262,398 thousand and NT\$133,785 thousand, respectively.

- (d) The expense recognized for employee services received during the three-month periods ended March 31, 2021 and 2020, is shown in the following table:

	For the three-month periods ended March 31,	
	2021	2020
Total expense arising from equity-settled share-based payment transactions	\$61,552	\$32,007

(16) Operating revenues

	For the three-month periods ended March 31,	
	2021	2020
Revenues from contracts with customers		
Sale of goods	\$2,221,412	\$1,648,537
Other operating revenues	23,584	46,523
Total	\$2,244,996	\$1,695,060

Analysis of revenues from contracts with customers during the three-month periods ended March 31, 2021 and 2020 are as follows:

(1) Disaggregation of revenue

A. By geography

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 three-month periods ended March 31,	
	2021	2020
Taiwan	\$1,472,896	\$1,171,226
Hong Kong	373,162	195,056
China	273,474	239,197
Japan	79,187	76,695
Others	46,277	12,886
Total	<u>\$2,244,996</u>	<u>\$1,695,060</u>

Revenues are presented by customers' country.

B. By product

	For the three-month periods ended March 31,	
	2021	2020
COMS image sensor	\$2,221,412	\$1,648,537
Others	23,584	46,523
Total	<u>\$2,244,996</u>	<u>\$1,695,060</u>

Timing of revenue recognition:

At a point in time	\$2,223,468	\$1,689,807
Over time	21,528	5,253
Total	<u>\$2,244,996</u>	<u>\$1,695,060</u>

(2) Contract balance

Contract liabilities – current

	As of			
	March 31, 2021	December 31, 2020	March 31, 2020	January 1, 2020
Sale of goods	<u>\$6,961</u>	<u>\$16,951</u>	<u>\$17,016</u>	<u>\$3,437</u>

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The significant changes in the Group's balances of contract liabilities for the three-month periods ended March 31, 2021 and 2020 are as follows:

	For the three-month periods ended March 31,	
	2021	2020
The opening balance transferred to revenue	\$(16,763)	\$(3,028)
Increase in receipts in advance during the period (excluding the amount incurred and transferred to revenue during the period)	6,773	16,607

(3) Transaction price allocated to unsatisfied performance obligations

The Group's transaction price allocated to unsatisfied performance obligations amounted to US\$488 thousand and NT\$128,826 thousand as of March 31, 2021. Management expects US\$488 thousand and NT\$26,421 thousand will be recognized during 2021 financial year, and the rest will be recognized during 2022 to 2024.

The Group's transaction price allocated to unsatisfied performance obligations amounted to US\$30 thousand as of March 31, 2020. Management expects all those amounts will be recognized during 2020 financial year.

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

(17) Expected credit (gains) losses

	For the three-month periods ended March 31,	
	2021	2020
Operating expenses – Expected credit (gains) losses		
Trade receivables	\$(695)	\$2,239

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 March 31, 2021, December 31, 2020 and March 31, 2020 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)

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 March 31, 2021

	Not yet due	Overdue		Total
		<=30 days	31-60 days	
Gross carrying amount	\$1,465,481	\$1,156	\$222	\$1,466,859
Loss ratio	1.5%	8%	30%	
Lifetime expected credit losses	(21,784)	(91)	(66)	(21,941)
Carrying amount of trade receivables	<u>\$1,443,697</u>	<u>\$1,065</u>	<u>\$156</u>	<u>\$1,444,918</u>

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	<u>\$1,455,523</u>	<u>\$-</u>	<u>\$-</u>	<u>\$1,455,523</u>

As of March 31, 2020

	Not yet due	Overdue		Total
		<=30 days	61-90 days	
Gross carrying amount	\$966,087	\$-	\$45	\$966,132
Loss ratio	1.5%	8%	50%	
Lifetime expected credit losses	(14,380)	-	(22)	(14,402)
Carrying amount of trade receivables	<u>\$951,707</u>	<u>\$-</u>	<u>\$23</u>	<u>\$951,730</u>

The movement in the provision for impairment of trade receivables during the three-month periods ended March 31, 2021 and 2020 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)

	For the three-month periods ended March 31,	
	2021	2020
Beginning balance	\$22,661	\$12,202
(Reversal) addition for the current period	(695)	2,239
Exchange effect	(25)	(39)
Ending balance	\$21,941	\$14,402

(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 32 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:

(a) Amounts recognized in the balance sheet

i. Right-of-use assets

The carrying amount of right-of-use assets

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Land	\$142,826	\$144,019	\$147,133
Building	42,948	40,495	48,536
Transportation equipment	716	-	630
Total	\$186,490	\$184,514	\$196,299

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

During the three-month periods ended March 31, 2021 and 2020, the Group's additions to right-of-use assets amounted to NT\$8,605 thousand and NT\$1,786 thousand, respectively.

ii. Lease liabilities

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Current	\$23,898	\$21,253	\$21,977
Non-current	166,404	166,741	176,729
Total	<u>\$190,302</u>	<u>\$187,994</u>	<u>\$198,706</u>

Please refer to Note 6 (20)(D) for the interest on lease liabilities recognized during the three-month periods ended March 31, 2021 and 2020. Please refer to Note 12 (E) Liquidity Risk Management for the maturity analysis for lease liabilities as of March 31, 2021 and 2020.

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

Depreciation charge for right-of-use assets

	For the three-month periods ended March 31,	
	2021	2020
Land	\$1,193	\$1,193
Building	5,029	4,832
Transportation equipment	102	210
Total	<u>\$6,324</u>	<u>\$6,235</u>

(c) Income and costs relating to leasing activities

	For the three-month periods ended March 31,	
	2021	2020
The expenses relating to short-term leases	\$2,453	\$132
The expenses relating to leases of low-value assets (excluding the expenses relating to short-term leases of low-value assets)	96	210

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(d) Cash outflow relating to leasing activities

For the three-month periods ended March 31, 2021 and 2020, the Group's total cash outflows for leases amounted to NT\$9,531 thousand and NT\$7,253 thousand, respectively.

(e) Other information relating to leasing activities

Extension and termination options

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 three-month periods ended March 31,	
	2021	2020
Lease income for operating leases		
Income relating to fixed lease payments	\$1,460	\$1,592

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 March 31, 2021 are as follows:

	As of		
	March 31, 2021	December 31, 2020	March 31, 2020
Not later than one year	\$4,281	\$2,933	\$1,328
For one or two years	2,266	1,154	405
For two or three years	43	-	-
Total	\$6,590	\$4,087	\$1,733

(19) Summary of employee benefits, depreciation and amortization expenses by function for the three-month periods ended March 31, 2021 and 2020:

by nature by function	For the three-month periods ended March 31,					
	2021			2020		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expense						
Salaries	\$19,912	\$543,479	\$563,391	\$15,153	\$433,178	\$448,331
Labor and health insurance	-	22,036	22,036	-	18,820	18,820
Pension	550	16,336	16,886	496	14,186	14,682
Others employee benefit expense	306	7,919	8,225	282	6,873	7,155
Depreciation (Note 1)	1,651	21,771	23,422	1,256	18,466	19,722
Amortization (Note 2)	2,699	68,720	71,419	4,129	61,203	65,332

Note 1: Depreciation of investment property of NT\$542 thousand and NT\$692 thousand for the three-month periods ended March 31, 2021 and 2020, respectively, were not included.

Note 2: The amortization expenses include the amortization of prepaid expenses and other noncurrent assets in the amount of NT\$31,635 thousand and NT\$28,747 thousand for the three-month periods ended March 31, 2021 and 2020, respectively.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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.

Based on the profit for the period, 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 three-month periods ended March 31, 2021 and 2020, are as follows:

	For the three-month periods ended March 31,	
	2021	2020
Employees' compensation	\$84,338	\$52,169
Remuneration to directors	6,072	3,756

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.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(20) Non-operating income and expenses

A. Interest income

	For the three-month periods ended March 31,	
	2021	2020
Financial assets measured at amortized cost	\$7,732	\$17,168

B. Other income

	For the three-month periods ended March 31,	
	2021	2020
Dividend income	\$20,812	\$-
Rental income	1,460	1,592
Others	6,818	1,308
Total	\$29,090	\$2,900

C. Other gains and losses

	For the three-month periods ended March 31,	
	2021	2020
Foreign exchange gains, net	\$19,782	\$12,024
Gains on financial assets at fair value through profit (Note)	615	20
Others	(541)	(793)
Total	\$19,856	\$11,251

Note: Balance in current period was arising from financial assets mandatorily measured at fair value through 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)

D. Finance costs

	For the three-month periods ended March 31,	
	2021	2020
Interest on lease liabilities	\$989	\$1,152
Interest expenses on borrowings from bank	865	4
Total	<u>\$1,854</u>	<u>\$1,156</u>

(21) Components of other comprehensive income

For the three-month periods ended March 31, 2021

	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:					
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	\$244,191	\$-	\$244,191	\$-	\$244,191
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of foreign operations	(5,225)	-	(5,225)	1,045	(4,180)
Total	<u>\$238,966</u>	<u>\$-</u>	<u>\$238,966</u>	<u>\$1,045</u>	<u>\$240,011</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 three-month periods ended March 31, 2020

	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax benefit (expense)	Other comprehensive income, net of tax
Arising during the period	during the period	income, before tax	benefit (expense)	income, net of tax
Not to be reclassified to profit or loss in subsequent periods:				
Unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income	\$(332,772)	\$-	\$(332,772)	\$-
To be reclassified to profit or loss in subsequent periods:				
Exchange differences resulting from translating the financial statements of foreign operations	(15,560)	-	(15,560)	3,112
Total	\$(348,332)	\$-	\$(348,332)	\$3,112

(22) Income tax

The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	For the three-month periods ended March 31,	
	2021	2020
Current income tax expenses:		
Current income tax charge	\$83,854	\$65,097
Adjustments in respect of current income tax of prior periods	(11)	-
Deferred tax expense (income):		
Deferred tax expense (income) relating to origination and reversal of temporary differences	11,100	(20,454)
Deferred tax expense relating to origination and reversal of tax loss and tax credit	-	20,339
Income tax expense	\$94,943	\$64,982

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 three-month periods ended March 31,	
	2021	2020
Deferred tax expense (income):		
Exchange differences resulting from translating the financial statements of foreign operations	\$(1,045)	\$(3,112)
Income tax relating to components of other comprehensive income	\$(1,045)	\$(3,112)

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:

	The assessment of income tax returns
The Company	Assessed and approved up to 2019
Subsidiary- Yuan-Xiang Investment Inc.	Assessed and approved up to 2019
Subsidiary- Yuan-Feng Investment Inc.	Assessed and approved up to 2019
Subsidiary- Audiowise Technology Inc.	Assessed and approved up to 2019
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 period attributable to ordinary equity owners of the parent entity by the weighted average number of ordinary shares outstanding during the period.

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 period plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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 three-month periods ended March 31,	
	2021	2020
A. Basic earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$426,457	\$270,090
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	138,487,341	136,070,710
Basic earnings per share (NT\$)	\$3.08	\$1.98
	For the three-month periods ended March 31,	
	2021	2020
B. Diluted earnings per share		
Profit attributable to ordinary equity owners of the parent (in thousand NT\$)	\$426,457	\$270,090
Weighted average number of ordinary shares outstanding for basic earnings per share (share)	138,487,341	136,070,710
Effect of dilution:		
Employee bonuses-stock (share)	1,745,936	1,510,320
Employee share options (share)	1,256,571	1,948,401
Restricted shares for employees (share)	1,737,566	1,120,341
Weighted average number of ordinary shares outstanding after dilution (share)	143,227,414	140,649,772
Diluted earnings per share (NT\$)	\$2.98	\$1.92

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.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(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.

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 between the cash consideration paid to non-controlling shareholders and the respective carrying amount of net assets of PrimeSensor Technology Inc. was NT\$358 thousand and was recognized in equity.

7. Related Party Transactions

Significant transactions with the related parties

Compensation of key management personnel

	For the three-month periods ended	
	March 31,	
	2021	2020
Short-term employee benefits	\$35,041	\$24,894
Post-employment benefits	547	449
Share-based payment (Note)	9,904	5,375
Total	\$45,492	\$30,718

Note : Estimated compensation expenses.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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
	March 31, 2021	December 31, 2020	March 31, 2020	
Other financial assets, non-current	\$5,084	\$5,084	\$6,128	Customs duty guarantee
Other financial assets, non-current	-	-	3,000	Capacity guarantee
Other financial assets, non-current	5,000	5,000	5,000	Land lease guarantee
	<u>\$10,084</u>	<u>\$10,084</u>	<u>\$14,128</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\$218,578 thousand and NT\$6,782 thousand, respectively, as of March 31, 2021.

10. Losses due to Major Disasters

None

11. Significant Subsequent Events

None

12. Financial instruments

(1)Categories of financial instruments

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		
	March 31, 2021	December 31, 2020	March 31, 2020
<u>Financial assets</u>			
Financial assets at fair value through profit or loss:			
Mandatorily measured at fair value through profit or loss	\$30,023	\$29,631	\$15,541
Financial assets at fair value through other comprehensive income	2,910,442	2,524,698	1,119,636
Financial assets measured at amortized cost:			
Cash and cash equivalents (exclude cash on hand)	4,811,971	4,291,912	4,805,594
Trade receivables	1,444,918	1,455,523	951,730
Other receivables	48,490	35,985	52,046
Refundable deposits	9,019	10,028	5,763
Other financial assets, non-current	1,012,480	997,199	14,128
Subtotal	7,326,878	6,790,647	5,829,261
Total	<u>\$10,267,343</u>	<u>\$9,344,976</u>	<u>\$6,964,438</u>
<u>Financial liabilities</u>			
Financial liabilities at amortized cost:			
Short-term borrowings	\$460,955	\$415,300	\$20,000
Trade and other payables	1,732,618	1,640,900	1,308,597
Deposits received	6,009	6,524	4,585
Lease liabilities	190,302	187,994	198,706
Total	<u>\$2,389,884</u>	<u>\$2,250,718</u>	<u>\$1,531,888</u>

(2) Financial risk management objectives and policies

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

(3)Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices. Market 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.

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:

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

When NTD strengthens/weakens against USD by 5%, the profit for the three-month periods ended March 31, 2021 and 2020 would decrease/increase by NT\$94,285 thousand and NT\$43,545 thousand, respectively, the equity would decrease/increase by NT\$25,014 thousand and NT\$84,093 thousand, respectively.

When NTD strengthens/weakens against MYR by 5%, the equity for the three-month periods ended March 31, 2021 and 2020 would decrease/increase by NT\$30,530 thousand and NT\$32,761 thousand, respectively.

When NTD strengthens/weakens against EUR by 5%, the equity for the three-month periods ended March 31, 2021 and 2020 would decrease/increase by NT\$1,000 thousand and NT\$390 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 three-month periods ended March 31, 2021 and 2020 to decrease/increase by NT\$1,152 thousand and NT\$50 thousand, respectively.

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.

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 three-month periods ended March 31, 2021 and 2020, 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\$265,693 thousand and NT\$87,515 thousand, respectively, on the equity attributable to the Group.

Please refer to Note 12(9) for sensitivity analysis information of other equity instruments whose fair value measurement is categorized under Level 3.

(4) 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 March 31, 2021, December 31, 2020 and March 31, 2020, receivables from top ten customers represent 91%, 94% and 88% of the total trade receivables of the Group, respectively. The credit concentration risk of other receivables is insignificant.

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).

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

(5)Liquidity risk management

The Group'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 March 31, 2021					
Short-term borrowings	\$464,694	\$-	\$-	\$-	\$464,694
Trade and other payables	1,732,618	-	-	-	1,732,618
Lease liabilities (Note)	28,090	33,002	17,552	159,480	238,124
Deposits received	-	6,009	-	-	6,009
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 March 31, 2020					
Short-term borrowings	\$20,318	\$-	\$-	\$-	\$20,318
Trade and other payables	1,308,597	-	-	-	1,308,597
Lease liabilities (Note)	25,824	35,736	21,060	165,900	248,520
Deposits received	-	4,585	-	-	4,585

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Maturities					Total
	Less than 1 year	1 to 5 years	6 to 10 years	11 to 15 years	>15 years	
As of March 31, 2021						
Lease liabilities	\$28,090	\$50,554	\$30,228	\$30,228	\$99,024	\$238,124
As of December 31, 2020						
Lease liabilities	\$22,937	\$48,426	\$30,228	\$30,228	\$100,536	\$232,355
As of March 31, 2020						
Lease liabilities	\$25,824	\$56,796	\$30,602	\$30,228	\$105,070	\$248,520

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for the three-month period ended March 31, 2021:

	Short-term borrowings	Lease liabilities
As of January 1, 2021	\$415,300	\$187,994
Cash flows	39,425	(5,993)
Non-cash changes	-	8,605
Foreign exchange movement	6,230	(304)
As of March 31, 2021	\$460,955	\$190,302

Reconciliation of liabilities for the three-month period ended March 31, 2020:

	Short-term borrowings	Lease liabilities
As of January 1, 2020	\$-	\$203,629
Cash flows	20,000	(5,759)
Non-cash changes	-	1,786
Foreign exchange movement	-	(950)
As of March 31, 2020	\$20,000	\$198,706

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(7) 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:

- (a) The carrying amount of cash and cash equivalents, receivables and payables approximate their fair value due to their short maturities.
- (b) For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price (including listed equity securities and funds).
- (c) The fair value of derivative financial instrument is based on market quotations. For unquoted derivatives that are not options, the fair value is determined based on discounted cash flow analysis using interest rate yield curve for the contract period. Fair value of option-based derivative financial instruments is obtained using the option pricing model.
- (d) 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.
- (e) 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 discount 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.

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 for financial instruments

Please refer to Note 12(9) for fair value measurement hierarchy for financial instruments of the Group.

(8) Derivative financial instruments

Information of derivative financial instruments not qualified for hedge accounting and not yet settled as of March 31, 2021 is as follows:

Forward exchange contracts

The Group entered into forward exchange contracts to manage its exposure to financial risk, but these contracts are not designated as hedging instruments. The table below lists the information related to forward exchange contracts:

<u>Items</u>	<u>Notional Amount</u>	<u>Contract Period</u>
As of March 31, 2021		
Forward exchange contract	Sell USD 3,000 thousand	From March 24, 2021 to April 23, 2021

The counterparties for the aforementioned derivatives transactions are well known local or overseas banks. As they have sound credit ratings, the credit risk is insignificant.

The Company entered into forward exchange contracts to hedge foreign currency risk of net assets or net liabilities. As there will be corresponding cash inflows or outflows upon maturity and the Company has sufficient operating funds, the cash flow risk 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)

(9) Fair value measurement hierarchy

A. Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

B. Fair value measurement hierarchy of the Group's assets and liabilities

The Group does not have assets that are measured at fair value on a non-recurring basis. Fair value measurement hierarchy of the Group's assets and liabilities measured at fair value on a recurring basis is as follows:

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 March 31, 2021

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value				
through profit or loss				
Funds	\$15,590	\$-	\$-	\$15,590
Convertible notes	-	-	14,268	14,268
Forward exchange contracts	-	165	-	165
Equity instrument investments				
measured at fair value				
through other				
comprehensive income				
Stocks	1,328,466	-	1,581,976	2,910,442
Total	<u>\$1,344,056</u>	<u>\$165</u>	<u>\$1,596,244</u>	<u>\$2,940,465</u>

As of December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value				
through profit or loss				
Funds	\$15,581	\$-	\$-	\$15,581
Convertible notes	-	-	14,050	14,050
Equity instrument investments				
measured at fair value				
through other				
comprehensive income				
Stocks	1,208,601	-	1,316,097	2,524,698
Total	<u>\$1,224,182</u>	<u>\$-</u>	<u>\$1,330,147</u>	<u>\$2,554,329</u>

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 March 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	\$15,541	\$-	\$-	\$15,541
Equity instrument investments				
measured at fair value				
through other				
comprehensive income				
Stocks	437,576	-	682,060	1,119,636
Total	<u>\$453,117</u>	<u>\$-</u>	<u>\$682,060</u>	<u>\$1,135,177</u>

Transfers between Level 1 and Level 2 during the period

For the three-month periods ended March 31, 2021 and 2020, 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, 2021	\$14,050	\$1,316,097
Total gains and losses recognized for the three-month period ended March 31, 2021:		
Amount recognized in profit or loss (presented in “other gains and losses”)	218	-
Amount recognized in other comprehensive income (presented in “unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income”)	-	134,041
Acquisition/issues for the three-month period ended March 31, 2021	-	131,273
Exchange differences	-	565
Ending balances as of March 31, 2021	\$14,268	\$1,581,976

	Assets
	At fair value through other comprehensive income
	Stocks
Beginning balances as of January 1, 2020	\$842,097
Total gains and losses recognized for the three-month period ended March 31, 2020:	
Amount recognized in other comprehensive income (presented in “unrealized gains (losses) from equity instrument investments measured at fair value through other comprehensive income”)	(170,872)
Acquisition/issues for the three-month period ended March 31, 2020	10,516
Exchange differences	319
Ending balances as of March 31, 2020	\$682,060

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 gains related to assets on hand as of March 31, 2021 in the amount of NT\$218 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 March 31, 2021

	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	0.85-21.54	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\$16,639 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\$93,560 thousand
		Recent financing activities price of investees	NT\$25-NT\$40	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\$47,999 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, 2020

	Valuation	Significant	Quantitative	Relationship	Sensitivity of the input
	techniques	unobservable inputs	information	between inputs and fair value	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 March 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	0.90-4.46	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\$7,931 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\$38,514 thousand
		Recent financing activities price of investees	NT\$8.4-NT\$24.33	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\$21,761 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 March 31, 2021

	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))	\$-	\$-	\$258,091	\$258,091

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 March 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))	\$-	\$-	\$40,703	\$40,703

- (10) Significant assets and liabilities denominated in foreign currencies

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

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

March 31, 2021			
	Foreign currency		NTD
	(thousand)	Exchange rate	(thousand)
Financial assets			
Monetary item:			
USD	\$110,581	28.54	\$3,155,440
MYR	48,154	6.872	330,901
CNY	10,855	4.352	47,244
JPY	26,688	0.258	6,877
EUR	208	33.48	6,967
Non-monetary item:			
USD	579	28.54	16,536
Financial liabilities			
Monetary item:			
USD	30,185	28.54	861,334
MYR	2,987	6.872	20,523
JPY	9,902	0.258	2,551
EUR	206	33.48	6,888
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
Non-monetary item:			
USD	1,432	28.10	40,228

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 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
	March 31, 2020		
	Foreign currency		NTD
	(thousand)	Exchange rate	(thousand)
Financial assets			
Monetary item:			
USD	\$90,534	30.23	\$2,736,405
MYR	72,254	7.017	506,996
CNY	9,526	4.261	40,591
JPY	26,138	0.279	7,287
EUR	123	33.24	4,094
Non-monetary item:			
USD	1,465	30.23	44,269
Financial liabilities			
Monetary item:			
USD	14,248	30.23	430,649
MYR	2,358	7.017	16,546
CNY	839	4.261	3,573
JPY	8,749	0.279	2,439
EUR	102	33.24	3,399

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 asset and liability denominated in foreign currencies. The foreign exchange gain was NT\$19,782 thousand and NT\$12,024 thousand for the three-month periods ended March 31, 2021 and 2020, respectively.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(11) 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 three-month period ended March 31, 2021: None.

(b) Endorsement/guarantee provided to others for the three-month period ended March 31, 2021:

No.	Endorsement /Guarantee Provider	Guaranteed Party		Limits on Endoresment/ Guarantee Amount Provided to Each Guaranteed Party (NT\$'000) (Note 1)	Maximum Balance for the Period (NT\$'000)	Ending Balance (NT\$'000) (Note 3)	Amount Actually Drawn (NT\$'000)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement / Guarantee to Net Equity per Latest Financial Statement	Maximum Endorsement/ Guarantee Amount Allowable (NT\$'000) (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	\$966,411	\$34,527 (US\$1,210,000)	\$34,527 (US\$1,210,000)	\$606	\$-	0.36%	\$2,899,232	Y	N	N
0	PixArt Imaging Inc.	Audiowise Technology Inc.	Subsidiary	\$966,411	\$184,051 (US\$6,450,000)	\$184,051 (US\$6,450,000)	\$6,176	\$-	1.90%	\$2,899,232	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 March 31, 2021 (excluding subsidiaries, associates and joint ventures):

Holding Company Name	Marketable Securities Type	Marketable Securities Name	Relationship with the Company	Financial Statement Account	March 31, 2021				
					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	73,104,258	\$764,111	4.55%	\$764,111	-
	Stocks	TriKnight Capital Corporation.	-	Financial assets at fair value through other comprehensive income, noncurrent	14,642,500	\$171,489	2.50%	\$171,489	-
	Stocks	United Microelectronics Corp.	-	Financial assets at fair value through other comprehensive income, current	16,000,000	\$803,200	0.13%	\$803,200	-
	Fund	Cathay Taiwan Money Market	-	Financial assets at fair value through profit or loss, current	1,243,080	\$15,590	-	\$15,590	-
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	\$34,821	10.58%	\$34,821	-
	Stocks	LI TV (TAIWAN) INC.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,430,000	\$97,200	5.86%	\$97,200	-
	Stocks	ACT Genomics Holdings	-	Financial assets at fair value through other comprehensive income, noncurrent	1,000,000	\$33,272	0.92%	\$33,272	-

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	March 31, 2021				
					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	\$14,495	3.59%	\$14,495	-
	Stocks	Theia medical technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,353,608	\$98,376	4.38%	\$98,376	-
	Stocks	Fittech Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	1,600,049	\$289,609	2.38%	\$289,609	-
	Stocks	Forest Water Environmental Engineering Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	520,000	\$21,424	0.39%	\$21,424	-
	Stocks	GEM Services, Inc.	-	Financial assets at fair value through other comprehensive income, noncurrent	20,580	\$1,780	0.02%	\$1,780	-
	Stocks	Jason's Entertainment Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	623,491	\$28,805	3.91%	\$28,805	-
	Stocks	Samebest Co., LTD.	-	Financial assets at fair value through other comprehensive income, noncurrent	279,092	\$13,941	0.74%	\$13,941	-
	Stocks	Long Time Technology Co., Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	726,629	\$37,574	0.60%	\$37,574	-

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	March 31, 2021				
					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	\$33,196	1.13%	\$33,196	-
	Stocks	Wiwynn Corporation	-	Financial assets at fair value through other comprehensive income, noncurrent	15,000	\$12,645	0.01%	\$12,645	-
	Stocks	Ultracker Technology Co. Ltd.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,500,000	\$18,700	18.28%	\$18,700	-
	Stocks	Vertex Growth (SG) LP	-	Financial assets at fair value through other comprehensive income, noncurrent	-	\$73,116	2.07%	\$73,116	-
	Stocks	Yuen Foong Yu Consumer Products CO., LTD.	-	Financial assets at fair value through other comprehensive income, noncurrent	800,000	\$49,392	0.33%	\$49,392	-

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	March 31, 2021				
					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	\$36,900	1.07%	\$36,900	-
	Stocks	TAIWAN LUNG MENG ADVANCED COMPOSITE MATERIALS CO., LTD.	-	Financial assets at fair value through other comprehensive income, noncurrent	4,800,000	\$120,000	3.43%	\$120,000	
	Convertible Note	Gemini Data, Inc.	-	Financial assets at fair value through profit or loss, noncurrent	-	\$14,268	-	\$14,268	-
Yuan-Feng Investment Inc.	Stocks	LI TV (TAIWAN) INC.	-	Financial assets at fair value through other comprehensive income, noncurrent	2,470,000	\$98,800	5.96%	\$98,800	-
PixArt Investment (SAMOA) Ltd.	Stocks	ACT Genomics Holdings	-	Financial assets at fair value through other comprehensive income, noncurrent	1,731,090	\$57,596	1.60%	\$57,596	-

- (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 three-month period ended March 31, 2021: 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.

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

- (g) Total purchase from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None.
- (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: Please refer to Notes 6(2) and 12(8).
- (j) Others: Intercompany relationships and significant intercompany transactions for the three-month period ended March 31, 2021:

NO	Company Name	Counter Party	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount (NT\$'000)	Terms	Percentage of Consolidated Revenue or Total Assets
0	PixArt Imaging Inc.	Audiowise Technology Inc.	1	Trade receivables from related parties	\$4,494	30-60 days	0.04%
				Operating revenue	\$4,291		0.19%
				Advance rent receipts	\$412	-	0.00%
				Other receivables from related parties	\$582	-	0.00%
				Temporary credits	\$133	-	0.00%
				Deposits received	\$823	-	0.01%
				Rental revenue	\$1,235	-	0.06%
				Other revenue	\$492	-	0.02%
0	PixArt Imaging Inc.	PixArt Germany GmbH	1	Trade payables to related party	\$4,144	In accordance with agreements	0.03%
				Operating expenses	\$1,780		0.08%
0	PixArt Imaging Inc.	PixArt Japan K.K.	1	Trade payables to related party	\$3,881	In accordance with agreements	0.03%
				Operating expenses	\$12,007		0.53%
0	PixArt Imaging Inc.	PixArt Imaging Finland Oy	1	Trade payables to related party	\$6,498	In accordance with agreements	0.05%
				Operating expenses	\$6,498		0.29%

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 (NT\$'000)	Terms	Percentage of Consolidated Revenue or Total Assets
1	Audiowise Technology Inc.	PixArt Imaging (USA), INC.	3	Trade payables to related party	\$2,935	In accordance with agreements	0.02%
				Operating expenses	\$8,604		0.38%
2	PixArt International (SAMOA) Ltd.	PixArt Technology (Shenzhen) Co., Ltd.	3	Prepaid expense - related party	\$692	In accordance with agreements	0.01%
				Operating expenses	\$13,581		0.60%
2	PixArt International (SAMOA) Ltd.	PixArt Imaging (USA), INC.	3	Trade payables to related party	\$3,405	In accordance with agreements	0.03%
				Operating expenses	\$10,251		0.46%
2	PixArt International (SAMOA) Ltd.	PixArt Imaging Finland Oy	3	Temporary payments	\$7,809	-	0.06%

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 March 31, 2021:**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (NT\$'000)		Balance as of March 31, 2021			Net Income (Losses) of the Investee (NT\$'000)	Investment Income (Loss) Recognized (NT\$'000)
				As of		Shares	Percentage of Ownership (%)	Carrying Value (NT\$'000)		
				March 31, 2021	December 31, 2020					
The Company	PixArt International (SAMOA) Ltd.	SAMOA	Investment activities	USD\$4,356,000	USD\$4,356,000	4,356,000	100.00	\$1,043,587	\$(20,035)	\$(20,035)
	Yuan-Xiang Investment Inc.	Taiwan	Investment activities	\$1,600,000	\$1,600,000	112,954,577	100.00	\$1,364,789	\$(1,483)	\$(1,483)
	Yuan-Feng Investment Inc.	Taiwan	Investment activities	\$420,000	\$420,000	12,682,294	100.00	\$149,474	\$(1,042)	\$(1,042)
	Audiowise Technology Inc.	Taiwan	IC design	\$251,000	\$251,000	25,100,000	83.67	\$80,106	\$(53,002)	\$(44,269)
	PixArt Imaging Finland Oy	Finland	Technical Support activities	EUR\$500,000	Note2	500,000	100.00	\$11,177	\$(5,570)	\$(5,570)
Yuan-Xiang Investment Inc.	YuanXiang Investment (SAMOA) Ltd.	SAMOA	Investment activities	USD\$2,710,220	USD\$2,710,220	2,710,220	100.00	\$87,305	\$(1,976)	Note1
Yuan-Feng Investment Inc.	Audiowise Technology Inc.	Taiwan	IC design	\$6,052	\$6,052	605,000	2.02	\$1,923	\$(53,002)	Note1
PixArt International (SAMOA) Ltd.	PixArt Imaging (USA) Inc.	USA	Technical Support activities	USD\$1,000,000	USD\$1,000,000	10,000	100.00	\$80,634	\$7,054	Note1
	PixArt Imaging (Penang) SDN. BHD.	MALAYSIA	IC design	MYR\$20,000,000	MYR\$20,000,000	20,000,000	100.00	\$610,609	\$8,393	Note1
	YuanXiang Technology (SAMOA) Ltd.	SAMOA	Investment activities	USD\$7,093,990	USD\$7,093,990	7,093,990	100.00	\$15,122	\$(1,832)	Note1

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 March 31, 2021			Net Income (Losses) of the Investee (NT\$'000)	Investment Income (Loss) Recognized (NT\$'000)
				As of		Shares	Percentage of Ownership (%)	Carrying Value (NT\$'000)		
				March 31, 2021	December 31, 2020					
PixArt International (SAMOA) Ltd.	PixArt Technology (SAMOA) Ltd.	SAMOA	Investment activities	USD\$500,000	USD\$500,000	500,000	100.00	\$4,835	\$(3,323)	Note1
	PixArt Investment (SAMOA) Ltd.	SAMOA	Investment activities	USD\$3,500,100	USD\$3,500,100	3,500,100	100.00	\$60,219	\$(2,829)	Note1
	PixArt Germany GmbH	Germany	Technical Support activities	EUR\$300,000	EUR\$300,000	300,000	100.00	\$8,820	\$95	Note1
YuanXiang Technology (SAMOA) Ltd.	PixArt Japan K.K.	Japan	Technical Support activities	USD\$518,039	USD\$518,039	1,000	100.00	\$14,901	\$(1,684)	Note1
YuanXiang Investment (SAMOA) Ltd.	CMC Capital Investments, L.P.	CAYMAN	Investment activities	USD\$1,466,856	USD\$2,247,696	-	20.00	\$16,536	\$(2,023)	Note1

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

Note2: PixArt Imaging Finland Oy was incorporated in October 2020, and the capital injection has been completed on February 19, 2021.

PIXART IMAGING INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

C. Information of investment in mainland China for the three-month period ended March 31, 2021.

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, 2021 (NT\$'000)	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of March 31, 2021 (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 March 31, 2021 (NT\$'000)	Accumulated Repatriation of Investment Income as of March 31, 2021 (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)	\$(3,323)	100%	\$(3,323)	\$4,697	\$-

Accumulated Outward Remittance for Investments in Mainland China as of March 31, 2021 (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)	\$5,798,464

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 reviewed 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

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.