

**SIMPLE MART RETAIL CO., LTD. AND
SUBSIDIARY**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2021 and 2020**

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The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of Simple Mart Retail Co., Ltd. as of and for the years ended December 31, 2021 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, “Consolidated Financial Statements” endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Simple Mart Retail Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Simple Mart Retail Co., Ltd.
Chairman: Chen, Shiang Feng
Date: February 25, 2022



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Independent Auditors' Report

To the Board of Directors of Simple Mart Retail Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Simple Mart Retail Co., Ltd. and its subsidiaries (“the Group”), which comprise the consolidated statement of financial position as of December 31, 2021 and 2020, and the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our judgment, the key audit matters we communicated in the auditors' report were as follows:

1. Recognition of retail sales revenue:

Please refer to Note 4(n) for the accounting policy of the recognition of retail sales revenue and Note 6(p) for the details of related disclosures.

Description of the key audit matter:

Retail sales revenue is generated by point of sale (POS) terminals, which record sales information (inclusive of merchandise name, quantity, sales price, and total sales amount) of each transaction using pre-established merchandise master file data. After the daily closing process, the store sales information is uploaded to the ERP (enterprise resource planning) system, which summarizes all sales and automatically generates sales revenue journal entries.

As retail sales revenue comprises numerous small amount transactions and highly relies on the system transition, the process of summarizing and recording sales revenue through these systems are important with regard to the completeness and accuracy of the recognition of retail sales revenues, and thus has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, observing the process of sales information entered by the salesclerk; inspecting the process of additions and changes to the merchandise master file data; evaluating the control of which sales information in POS terminals was periodically and completely transferred to the ERP system and automatically generated sales revenue journal entries, and inspecting manual sales journal entries and relevant documents; inspecting the amount consistency between daily cash reports and bank statement.

2. Valuation of inventories:

Please refer to Note 4(h) for the accounting policy of inventory valuation, Note 5 for uncertainty of accounting estimations and assumptions for inventory valuation and Note 6(d) for the details of related disclosures.

Description of the key audit matter:

The Group's inventories are measured at the lower of cost and net realizable value. The retail industry is highly competitive, therefore, the demand and price of related merchandise might be fluctuated. Thus, it might be the risk of when the cost of inventories goes over net realizable value.

How the matter was addressed in our audit:

In connection of inventory allowance valuation, we analyzed the change in inventory turnovers, evaluated the accounting policy rationality, understood the sales price adopted by the management evaluation, inspected the sales statuses and valuation after the period, with evaluation in the adoption of net realizable value basis, to prove the rationality of inventory allowance valuation adopted by the management.

Other Matter

Simple Mart Retail Co., Ltd. has prepared its parent company only financial statements as of and for the years ended December 31, 2021 and 2020, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Chou, Pao-Lian and Chen, Cheng-Chien.

KPMG

Taipei, Taiwan (Republic of China)
February 25, 2022

Notes to Readers

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

The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| | | December 31, 2021 | | December 31, 2020 | | | | December 31, 2021 | | December 31, 2020 | |
|----------------------------|---|---------------------|------------|-------------------|------------|--|---|---------------------|------------|-------------------|------------|
| Assets | | Amount | % | Amount | % | Liabilities and Equity | | Amount | % | Amount | % |
| Current assets: | | | | | | Current liabilities: | | | | | |
| 1100 | Cash and cash equivalents (note 6(a)) | \$ 680,647 | 12 | 179,014 | 4 | 2100 | Short-term borrowings (note 6(h)(s)(v)) | \$ - | - | 100,000 | 2 |
| 1150 | Notes receivable, net (note 6(b)) | - | - | 7 | - | 2110 | Short-term notes and bills payable (note 6(i)(s)(v)) | - | - | 399,863 | 8 |
| 1170 | Accounts receivable, net (note 6(b)) | 54,008 | 1 | 41,474 | 1 | 2130 | Contract liabilities - current (notes 6(p)) | 29,727 | - | 32,602 | 1 |
| 1180 | Accounts receivable - related parties, net (note 6(b) and 7) | 3,365 | - | 2,613 | - | 2150 | Notes payable (note 6(s)) | 74 | - | 948 | - |
| 1197 | Finance lease receivable (note 6(c) and 7) | 10,833 | - | 10,735 | - | 2170 | Accounts payable (note 6(s) and 7) | 1,303,850 | 24 | 1,015,735 | 20 |
| 1200 | Other receivables(note 7) | 8,391 | - | 9,219 | - | 2180 | Accounts payable - related parties (note 6(s) and 7) | 7,272 | - | 1,349 | - |
| 1300 | Inventories (note 6(d)) | 1,476,106 | 27 | 1,508,133 | 30 | 2200 | Other payables (note 6(s) and 7) | 488,847 | 9 | 460,434 | 9 |
| 1410 | Prepayments (note 7) | 22,545 | - | 137,689 | 3 | 2280 | Lease liabilities - current (note 6(j)(s)(v) and 7) | 438,590 | 8 | 413,030 | 8 |
| 1476 | Other current financial assets (note 6(a) and 8) | 150,000 | 3 | 150,429 | 3 | 2300 | Other current liabilities | 47,712 | 1 | 69,186 | 1 |
| 1479 | Other current assets | 440 | - | 2,350 | - | | | <u>2,316,072</u> | <u>42</u> | <u>2,493,147</u> | <u>49</u> |
| | | <u>2,406,335</u> | <u>43</u> | <u>2,041,663</u> | <u>41</u> | Non-Current liabilities: | | | | | |
| Non-current assets: | | | | | | 2527 | Contract liabilities - non-current (note 6(p)) | 10,644 | - | 15,782 | - |
| 1551 | Investments accounted for using the equity method (note 6(e) and 7) | 59,806 | 2 | 55,431 | 1 | 2550 | Non-current provisions | 3,740 | - | 3,736 | - |
| 1600 | Property, plant and equipment (note 6(f) and 7) | 1,350,705 | 24 | 1,339,308 | 26 | 2570 | Deferred tax liabilities (note 6(l)) | 765 | - | - | - |
| 1755 | Right-of-use assets (note 6(g)) | 1,567,978 | 28 | 1,489,846 | 29 | 2580 | Lease liabilities - non-current (note 6(j)(s)(v) and 7) | 1,182,845 | 21 | 1,131,990 | 22 |
| 1920 | Guarantee deposits paid (note 7) | 100,915 | 2 | 104,040 | 2 | 2645 | Guarantee deposits received (note 6(s) and 7) | 118,794 | 2 | 134,469 | 3 |
| 194D | Finance lease receivable - non-current (note 6(c) and 7) | 2,772 | - | 13,633 | - | | | <u>1,316,788</u> | <u>23</u> | <u>1,285,977</u> | <u>25</u> |
| 1980 | Other non-current financial assets (note 6(a) and 8) | 8,750 | - | 750 | - | | Total liabilities | <u>3,632,860</u> | <u>65</u> | <u>3,779,124</u> | <u>74</u> |
| 1990 | Other non-current assets (notes 6(l)) | 41,281 | 1 | 54,859 | 1 | Equity attributable to owners of parent:(note 6(m)) | | | | | |
| | | <u>3,132,207</u> | <u>57</u> | <u>3,057,867</u> | <u>59</u> | 3110 | Ordinary share | 675,000 | 12 | 600,000 | 12 |
| | | <u>\$ 5,538,542</u> | <u>100</u> | <u>5,099,530</u> | <u>100</u> | 3200 | Capital surplus | 992,115 | 18 | 537,938 | 10 |
| Total assets | | | | | | | Retained earnings: | | | | |
| | | | | | | 3310 | Legal reserve | 44,064 | 1 | 25,867 | - |
| | | | | | | 3350 | Unappropriated retained earnings | 194,503 | 4 | 181,966 | 4 |
| | | | | | | | | <u>238,567</u> | <u>5</u> | <u>207,833</u> | <u>4</u> |
| | | | | | | 3500 | Treasury stocks | - | - | (25,365) | - |
| | | | | | | | Total equity | <u>1,905,682</u> | <u>35</u> | <u>1,320,406</u> | <u>26</u> |
| | | | | | | Total liabilities and equity | | <u>\$ 5,538,542</u> | <u>100</u> | <u>5,099,530</u> | <u>100</u> |

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

| | | 2021 | | 2020 | |
|------|--|-------------------|-----------|------------------|-----------|
| | | Amount | % | Amount | % |
| 4000 | Operating revenue (note(6(p), 7 and 14) | \$ 13,985,893 | 100 | 13,222,579 | 100 |
| 5000 | Operating costs (note 6(d),7 and 12) | <u>10,470,760</u> | <u>75</u> | <u>9,922,677</u> | <u>75</u> |
| | Gross profit from operations | <u>3,515,133</u> | <u>25</u> | <u>3,299,902</u> | <u>25</u> |
| | Operating expenses: (note 4(u), 6(b)(f)(g)(j)(k)(n)(q), 7 and 12) | | | | |
| 6100 | Selling expenses | 2,875,364 | 20 | 2,682,083 | 20 |
| 6200 | Administrative expenses | 394,184 | 3 | 366,355 | 3 |
| 6450 | Expected credit losses | <u>7</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | Total operating expenses | <u>3,269,555</u> | <u>23</u> | <u>3,048,438</u> | <u>23</u> |
| | Net operating income | <u>245,578</u> | <u>2</u> | <u>251,464</u> | <u>2</u> |
| | Non-operating income and expenses: | | | | |
| 7100 | Interest income (note 6(j)) | 1,604 | - | 1,849 | - |
| 7190 | Other income (note 6(r) and 7) | 30,809 | - | 24,257 | - |
| 7230 | Foreign exchange gains | 211 | - | 660 | - |
| 7510 | Interest expenses (note 6(j) and 7) | (18,125) | - | (19,909) | - |
| 7590 | Miscellaneous disbursements | (9,222) | - | (10,482) | - |
| 7610 | Losses on disposal of property, plant and equipment (note 6(f) and 7) | (12,388) | - | (8,850) | - |
| 7670 | Impairment losses (note 6(f)(g)) | (2,038) | - | (8,571) | - |
| 7060 | Shares of gain (loss) of associates and joint ventures accounted for using equity method (note 6(e)) | <u>4,375</u> | <u>-</u> | <u>(549)</u> | <u>-</u> |
| | | <u>(4,774)</u> | <u>-</u> | <u>(21,595)</u> | <u>-</u> |
| | Profit from continuing operations before tax | 240,804 | 2 | 229,869 | 2 |
| 7950 | Less: Income tax expenses (note 6(l)) | <u>46,301</u> | <u>-</u> | <u>47,903</u> | <u>-</u> |
| | Profit | <u>194,503</u> | <u>2</u> | <u>181,966</u> | <u>2</u> |
| 8300 | Other comprehensive income, net | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 8500 | Total comprehensive income | <u>\$ 194,503</u> | <u>2</u> | <u>181,966</u> | <u>2</u> |
| | Profit, attributable to: | | | | |
| | Owners of parent | <u>\$ 194,503</u> | <u>2</u> | <u>181,966</u> | <u>2</u> |
| | Comprehensive income attributable to: | | | | |
| | Owners of parent | <u>\$ 194,503</u> | <u>2</u> | <u>181,966</u> | <u>2</u> |
| | Earnings per share (expressed in dollars) | | | | |
| | Basic earnings per share (note 6(o)) | <u>\$ 3.21</u> | | <u>3.04</u> | |
| | Diluted earnings per share (note 6(o)) | <u>\$ 3.21</u> | | <u>3.04</u> | |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY

Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(Expressed in Thousands of New Taiwan Dollars)

| | Equity attributable to owners of parent | | | | | Total equity |
|-------------------------------------|---|-----------------|-------------------|----------------------------------|-----------------|--------------|
| | Ordinary shares | Capital surplus | Retained earnings | | Treasury stocks | |
| | | | Legal reserve | Unappropriated retained earnings | | |
| Balance at January 1, 2020 | \$ 600,000 | 511,664 | 21,655 | 42,121 | - | 1,175,440 |
| Distribution of retained earnings: | | | | | | |
| Legal reserve | - | - | 4,212 | (4,212) | - | - |
| Cash dividends | - | - | - | (37,909) | - | (37,909) |
| | - | - | 4,212 | (42,121) | - | (37,909) |
| Other changes in capital surplus: | | | | | | |
| Other changes in capital surplus | - | 26,274 | - | - | - | 26,274 |
| Net income | - | - | - | 181,966 | - | 181,966 |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | 181,966 | - | 181,966 |
| Purchase of treasury stocks | - | - | - | - | (25,365) | (25,365) |
| Balance at December 31, 2020 | 600,000 | 537,938 | 25,867 | 181,966 | (25,365) | 1,320,406 |
| Distribution of retained earnings: | | | | | | |
| Legal reserve | - | - | 18,197 | (18,197) | - | - |
| Cash dividends | - | - | - | (163,769) | - | (163,769) |
| | - | - | 18,197 | (181,966) | - | (163,769) |
| Net income | - | - | - | 194,503 | - | 194,503 |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | 194,503 | - | 194,503 |
| Treasury stocks sold to employees | - | (2,246) | - | - | 25,365 | 23,119 |
| Capital increase by cash | 75,000 | 453,967 | - | - | - | 528,967 |
| Share-based payment transactions | - | 2,456 | - | - | - | 2,456 |
| Balance at December 31, 2021 | \$ 675,000 | 992,115 | 44,064 | 194,503 | - | 1,905,682 |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars)

| | 2021 | 2020 |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Profit before tax | \$ 240,804 | 229,869 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expenses | 706,128 | 665,673 |
| Amortization expenses | 19,295 | 24,016 |
| Expected credit losses | 7 | - |
| Interest expenses | 18,125 | 19,909 |
| Interest income | (1,604) | (1,849) |
| Share-based payment compensation costs | 4,518 | - |
| Shares of loss (gain) of associates and joint ventures accounted for using the equity method | (4,375) | 549 |
| Losses on disposal of property, plant and equipment | 12,388 | 8,850 |
| Losses on disposal of intangible assets | 7 | - |
| Impairment losses on non-financial assets | 2,038 | 8,571 |
| Others | 318 | (1,319) |
| Total adjustments to reconcile profit | <u>756,845</u> | <u>724,400</u> |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in notes receivable | 7 | (1) |
| Increase in accounts receivable | (12,541) | (13,773) |
| Increase in accounts receivable-related parties | (752) | (2,554) |
| Decrease (increase) in other receivables | 837 | (1,202) |
| Decrease (increase) in inventories | 32,027 | (142,469) |
| Decrease in prepayments | 115,163 | 31,150 |
| Decrease (increase) in other current assets | 1,910 | (988) |
| (Increase) decrease in other financial assets | (7,571) | 5,471 |
| (Decrease) increase in contract liabilities | (8,013) | 5,552 |
| Decrease in notes payable | (874) | (254) |
| Increase in accounts payable | 288,115 | 72,999 |
| Increase (decrease) in accounts payable-related parties | 5,923 | (33) |
| Increase in other payables | 37,997 | 54,726 |
| Increase in provisions | - | 1 |
| Increase (decrease) in other current liabilities | 9,554 | (1,721) |
| Total adjustments | <u>1,218,627</u> | <u>731,304</u> |
| Cash inflow generated from operations | 1,459,431 | 961,173 |
| Interest received | 1,596 | 1,980 |
| Interest paid | (18,170) | (19,997) |
| Income taxes paid | (79,830) | (4,688) |
| Net cash flows generated from operating activities | <u>1,363,027</u> | <u>938,468</u> |
| Cash flows from investing activities: | | |
| Acquisition of investments accounted for using the equity method | - | (55,980) |
| Acquisition of property, plant and equipment | (298,517) | (244,005) |
| Proceeds from disposal of property, plant and equipment | 685 | 751 |
| Increase in guarantee deposits paid | 3,125 | (5,182) |
| Acquisition of intangible assets | (2,480) | (11,185) |
| Decrease in finance lease receivable-non-current | 10,716 | 9,779 |
| Net cash flows used in investing activities | <u>(286,471)</u> | <u>(305,822)</u> |
| Cash flows from financing activities: | | |
| Decrease in short-term loans | (100,000) | (380,000) |
| Increase in short-term notes and bills payable | - | 100,062 |
| Decrease in short-term notes and bills payable | (399,863) | - |
| Increase in guarantee deposits received | - | 5,429 |
| Decrease in guarantee deposits received | (15,675) | - |
| Payments of lease liabilities | (445,640) | (420,961) |
| Cash dividends paid | (163,769) | (37,909) |
| Capital increase by cash | 528,967 | - |
| Purchase of treasury stocks | - | (25,365) |
| Treasury stocks sold to employees | 21,057 | - |
| Other changes in capital surplus | - | 26,274 |
| Net cash flows used in financing activities | <u>(574,923)</u> | <u>(732,470)</u> |
| Net increase (decrease) in cash and cash equivalents | 501,633 | (99,824) |
| Cash and cash equivalents at beginning of period | 179,014 | 278,838 |
| Cash and cash equivalents at end of period | <u>\$ 680,647</u> | <u>179,014</u> |

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY

Notes to the Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

Simple Mart Retail Co., Ltd. (the “Company”) was incorporated on February 7, 2013 as a company limited authorized by the Ministry of Economic Affairs. The Company has registered office located at B1, No. 4, Section 3, Minquan East Road, Zhongshan District, Taipei City 10477, Taiwan (R.O.C.). The consolidated financial statements comprise the Company and its subsidiary (together referred to as the “Group”). The main engagement is in supermarket operation, and retail sales in kinds of food, beverage and daily commodities, etc.

As of October 24, 2018, the Company got approval for public offering, and were listed on the Taiwan Stock Exchange (TWSE) on November 30, 2021.

(2) Approval date and procedures of the consolidated financial statements:

The Board of Directors authorized the consolidated financial statements on February 25, 2022.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2021:

- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform—Phase 2”

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from April 1, 2021:

- Amendments to IFRS 16 “Covid-19-Related Rent Concessions beyond June 30, 2021”

- (b) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2022, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018–2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

- (c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The Group does not expect the following new and amended standards, which have yet to be endorsed by the FSC, have a significant impact on its consolidated financial statements:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17
- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

(4) Summary of significant accounting policies:

The significant accounting policies presented in the consolidated financial statements are summarized below. Except for those specifically indicated, the following accounting policies were applied consistently throughout the periods presented in the consolidated financial statements.

- (a) Statement of compliance

These consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to the Regulations) and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

- (b) Basis of preparation

- (i) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis.

- (ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company’s functional currency.

- (c) Basis of consolidation

- (i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income 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.

When necessary, financial statements of subsidiaries are adjusted to align the accounting policies with those adopted by the Company.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

- (ii) List of the subsidiary in the consolidated financial statements

List of the subsidiary in the consolidated financial statements included:

| Name of investor | Name of subsidiary | Main business and products | Shareholding | |
|----------------------|---------------------------|----------------------------|-------------------|-------------------|
| | | | December 31, 2021 | December 31, 2020 |
| Simple Mart Co., Ltd | Simple Mart Plus Co., Ltd | Retail and catering | 100 % | 100 % |

- (iii) Subsidiaries excluded from the consolidated financial statements: None.

- (d) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date, exchange differences are generally recognized in profit or loss.

- (e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- (i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

An entity shall classify a liability as current when:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and bank deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at amortized cost. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivable, leases receivable, guarantee deposit paid and other financial assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

As the Group's bank deposits, time deposits and repurchase agreement are dealt with financial institutions with good credit rating and graded above investment level, hence, there is no significant credit risk arising.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 180 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

3) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Treasury stock

Repurchased shares are recognized under treasury stocks (a contra-equity account) based on their repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury stocks should be recognized under Capital Reserve – Treasury Stock Transactions; Losses on disposal of treasury stocks should be offset against existing capital reserves arising from similar types of treasury stocks. If there are insufficient capital reserves to be offset against, then such losses should be accounted for under retained earnings. The carrying amount of treasury stocks should be calculated using the weighted average of different types of repurchase.

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(h) Inventories

Inventories are measured at actual cost. The cost of inventories is calculated using the weighted average method. Thereafter, allowance for inventory obsolescence losses is recognized for obsolescent and overdue goods, the obsolescence losses are recognized as cost in the current period.

(i) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Group, from the date on which significant influence commences until the date on which significant influence ceases. The Group recognizes any changes of its proportionate share in the investee within capital surplus, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual proportionate share.

Gains and losses resulting from transactions between the Group and an associate are recognized only to the extent of unrelated Group's interests in the associate. When the Group's share of losses of an associate equals or exceeds its interests in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost (inclusive of capitalized borrowing costs) less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful life, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful life of property, plant and equipment for current and comparative periods are as follows:

| | |
|---------------------------|------------|
| 1) Buildings | 50 years |
| 2) Plant and equipment | 2~10 years |
| 3) Leasehold improvements | 1~11 years |

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

Depreciation methods, useful life and residual values are reviewed at least at each annual reporting date and adjusted if appropriate.

(k) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 1) fixed payments, including in-substance fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- 3) amounts expected to be payable under a residual value guarantee; and
- 4) payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- 3) there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- 4) there is a change of its assessment on whether it will exercise a extension or termination option; or

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

5) there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The lessor recognizes a finance lease receivable at an amount equal to its net investment in the lease. Initial direct costs, such as lessors to negotiate and arrange a lease, are included in the measurement of the net investment. The lessor recognizes the interest income over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'rental income'.

(l) Intangible assets

Intangible assets are acquired by the Group and have finite useful life are measured at cost less accumulated amortization and any accumulated impairment losses.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

(i) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(ii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful life of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful life for current and comparative periods are as follows:

| | |
|------------------------------|-----------|
| Computer software and others | 2~8 years |
|------------------------------|-----------|

Amortization methods, useful life and residual values are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

(n) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

1) Sale of goods

The Group manufactures and sells consumer foods, beverage and daily commodities in the retail market. The Group recognizes revenue when a customer takes possession of the product. Payment of the transaction price is due immediately when the customer purchases the product.

2) Customer loyalty program

The Group operates a customer loyalty program to its retail customers. Retail customers obtain points for purchases made, which entitle them to discount on future purchases. The Group considers that the points provide a material right to customers. The stand-alone selling price of the product sold is estimated on the basis of the retail price. The Group has recognized contract liability at the time of sale on the basis of the principle mentioned above. Revenue from the award points is recognized when the points are redeemed or when they expire.

3) Other operating income

The Group provides kinds of service, including advertisement, product launch, franchisee, etc.. The Group recognizes revenue when the service is provided to customers during the reporting period.

4) Commission revenue

When the Group acts as an agent instead of principal between the transaction, the revenue is recognized according to the net commission amount received.

5) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(o) Government grants and government assistance

The Group recognizes an unconditional government grant in profit or loss as other income when the grant becomes receivable. Grants that compensate the Group for expenses or losses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses or losses are recognized.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

(ii) Defined benefit plans

Contributions to defined benefit retirement plans are expensed as the related service is provided.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(q) Share-based payment

The grant date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as a cost, with a corresponding increase in equity, over the vesting period of the awards.

Grant date of a share-based payment award is the base date which the Board of Directors had authorized.

(r) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes are recognized in profit or loss.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or
 - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(s) Earnings per share

The Group discloses the Group's basic and diluted earnings per share attributable to ordinary shareholders of the Group. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares.

(t) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

(u) Changes in accounting policies

The Group originally classified the expenses related to the operating division as selling expenses for the years ended December 31, 2020, due to the organizational restructuring, the expenses should be reclassified as administrative expenses amounting to \$175,580 thousand.

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Valuation of inventories

Based on the policy of the obsolescence loss provisions in inventories arose from obsolescent and overdue goods, the Group estimates the amount of obsolescent items from the inventory at the end of the reporting period, and then appropriate the cost of inventory to obsolescence loss. The valuation is mainly determined by the demand of merchandise in accordance with the specific period in the future. Due to the rapid industrial transformation, there may be significant changes in the value of inventories. Please refer to Note 6(d) for the valuation of inventories.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

| | December 31, 2021 | December 31, 2020 |
|----------------------|------------------------------|------------------------------|
| Cash on hand | \$ 52,902 | 53,558 |
| Bank deposits | 195,503 | 88,264 |
| Repurchase agreement | 432,242 | 37,192 |
| | <u>\$ 680,647</u> | <u>179,014</u> |

Time deposits are not held for the purpose of meeting short-term cash commitments and are readily convertible into cash with low risk of changes in value. They are classified as other financial assets as follows:

| | December 31, 2021 | December 31, 2020 |
|---|------------------------------|------------------------------|
| Time deposits with maturities of more than three months | \$ - | <u>429</u> |
| Restricted time deposits | <u>\$ 158,750</u> | <u>150,750</u> |

Please refer to note 6(s) and (t) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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(b) Notes and accounts receivable (including related parties)

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|------------------------------|------------------------------|
| Notes receivable - measured at amortized cost | \$ - | 7 |
| Accounts receivable - measured at amortized cost | 54,072 | 41,531 |
| Accounts receivable (related parties) - measured at amortized cost | 3,365 | 2,613 |
| Less: loss allowance | <u>(64)</u> | <u>(57)</u> |
| | <u><u>\$ 57,373</u></u> | <u><u>44,094</u></u> |

Most of the Group's accounts receivable are generated from the customer which paid by credit cards and e-payment.

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowances was determined as follows:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|-----------------------------|--------------------------------------|--------------------------------------|
| | <u>Gross carrying amount</u> | <u>Gross carrying amount</u> |
| Current | \$ 57,134 | 40,184 |
| 1-60 days past due | 246 | 3,910 |
| 61-120 days past due | - | - |
| 121-180 days past due | - | - |
| More than 181 days past due | <u>57</u> | <u>57</u> |
| | <u><u>\$ 57,437</u></u> | <u><u>44,151</u></u> |

The movement in the allowance for notes and accounts receivable were as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|---------------------|------------------|
| Beginning balance of the period | \$ 57 | 57 |
| Impairment losses recognized | <u>7</u> | <u>-</u> |
| Ending balance of the period | <u><u>\$ 64</u></u> | <u><u>57</u></u> |

(c) Finance leases receivable

The Group subleases the leased office and retail stores. It classified the sublease as a finance lease, because the sublease is for the whole of the remaining terms of the head lease.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date, is as follows:

| | December 31, 2021 | December 31, 2020 |
|--|------------------------------|------------------------------|
| Less than one year | \$ 10,913 | 10,928 |
| One to five years | 2,776 | 13,718 |
| Total lease payments receivable | 13,689 | 24,646 |
| Unearned finance income | (84) | (278) |
| Present value of lease payments receivable | \$ 13,605 | 24,368 |

(d) Inventories

| | December 31, 2021 | December 31, 2020 |
|---|------------------------------|------------------------------|
| Merchandise inventories | \$ 1,476,106 | 1,508,133 |
| | 2021 | 2020 |
| Cost of goods sold | \$ 10,415,265 | 9,864,589 |
| Inventory losses from obsolescence and others | 55,495 | 58,088 |
| Cost of sales | \$ 10,470,760 | 9,922,677 |

As of December 31, 2021 and 2020, the Group did not provide any merchandise inventories as collateral for its loans.

(e) Investments accounted for using the equity method

The components of investments accounted for using the equity method at the reporting date is as follows:

| | December 31, 2021 | December 31, 2020 |
|-----------|------------------------------|------------------------------|
| Associate | \$ 59,806 | 55,431 |

On December 2020, the Group acquire 45% shares of Sanyou Drugstores Co., Ltd. from the related parties, Sumitomo Corporation for \$55,980 thousand in cash, resulting in the Group to have significant influence over Sanyou Drugstores Co., Ltd. The related information was as follows:

| Name of associate | Nature of relationship with the Group | Main operating location/ Registered Country of the Group | Proportion of shareholding and voting rights | |
|-----------------------------|--|---|---|------------------------------|
| | | | December 31, 2021 | December 31, 2020 |
| Sanyou Drugstores Co., Ltd. | Retail Sale of Drugs and Cosmetics | Republic of China (R.O.C.) | 45.00 % | 45.00 % |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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The Group's financial information on investment accounted for using the equity method that are individually insignificant was as follows:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|-----------------|-------------|
| Attributable to the Group: | | |
| Gain from continuing operations | \$ 4,375 | 549 |
| Other comprehensive income | - | - |
| Comprehensive income | <u>\$ 4,375</u> | <u>549</u> |

(i) Collateral

The Group did not provide any investments accounted for using the equity method as collateral for its loans.

(f) Property, plant and equipment

The movement of the cost, accumulated depreciation and impairment losses of the property, plant and equipment of the Group for the years ended December 31, 2021 and 2020 were as follows:

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Leasehold improvements</u> | <u>Prepayment for business facilities and construction in progress</u> | <u>Total</u> |
|---|-------------------|------------------|--|-----------------------------------|--|------------------|
| Cost: | | | | | | |
| Balance at January 1, 2021 | \$ 537,599 | 220,887 | 855,785 | 747,604 | - | 2,361,875 |
| Additions | - | - | 210,699 | 78,282 | - | 288,981 |
| Transfer from (to) | - | - | 72 | (72) | - | - |
| Scraps | - | - | (34,173) | (27,074) | - | (61,247) |
| Disposal | - | - | (7,388) | - | - | (7,388) |
| Balance at December 31, 2021 | <u>\$ 537,599</u> | <u>220,887</u> | <u>1,024,995</u> | <u>798,740</u> | <u>-</u> | <u>2,582,221</u> |
| Balance at January 1, 2020 | \$ 537,599 | 220,887 | 714,409 | 675,753 | 4,183 | 2,152,831 |
| Additions | - | - | 164,055 | 81,046 | 10,318 | 255,419 |
| Transfer from (to) | - | - | 141 | 14,360 | (14,501) | - |
| Scraps | - | - | (18,799) | (23,494) | - | (42,293) |
| Disposal | - | - | (4,021) | (61) | - | (4,082) |
| Balance at December 31, 2020 | <u>\$ 537,599</u> | <u>220,887</u> | <u>855,785</u> | <u>747,604</u> | <u>-</u> | <u>2,361,875</u> |
| Accumulated depreciation and impairment losses: | | | | | | |
| Balance at January 1, 2021 | \$ - | 19,279 | 520,673 | 482,615 | - | 1,022,567 |
| Depreciation | - | 4,335 | 159,103 | 99,039 | - | 262,477 |
| Transfer from (to) | - | - | 46 | (46) | - | - |
| Scraps | - | - | (33,395) | (15,277) | - | (48,672) |
| Disposal | - | - | (6,890) | - | - | (6,890) |
| Impairment losses | - | - | 1,784 | 250 | - | 2,034 |
| Balance at December 31, 2021 | <u>\$ -</u> | <u>23,614</u> | <u>641,321</u> | <u>566,581</u> | <u>-</u> | <u>1,231,516</u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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| | <u>Land</u> | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Leasehold improvements</u> | <u>Prepayment for business facilities and construction in progress</u> | <u>Total</u> |
|------------------------------|-------------------|------------------|--|-----------------------------------|--|------------------|
| Balance at January 1, 2020 | \$ - | 14,943 | 412,589 | 382,308 | - | 809,840 |
| Depreciation | - | 4,336 | 129,321 | 109,091 | - | 242,748 |
| Transfer from (to) | - | - | 3 | (3) | - | - |
| Scraps | - | - | (18,330) | (15,508) | - | (33,838) |
| Disposal | - | - | (2,910) | (27) | - | (2,937) |
| Impairment losses | - | - | - | 6,754 | - | 6,754 |
| Balance at December 31, 2020 | <u>\$ -</u> | <u>19,279</u> | <u>520,673</u> | <u>482,615</u> | <u>-</u> | <u>1,022,567</u> |
| Carrying amounts: | | | | | | |
| Balance at December 31, 2021 | <u>\$ 537,599</u> | <u>197,273</u> | <u>383,674</u> | <u>232,159</u> | <u>-</u> | <u>1,350,705</u> |
| Balance at January 1, 2020 | <u>\$ 537,599</u> | <u>205,944</u> | <u>301,820</u> | <u>293,445</u> | <u>4,183</u> | <u>1,342,991</u> |
| Balance at December 31, 2020 | <u>\$ 537,599</u> | <u>201,608</u> | <u>335,112</u> | <u>264,989</u> | <u>-</u> | <u>1,339,308</u> |

Investing activities that are partially paid in cash:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-----------------|
| Acquisition of property, plant and equipment | \$ 288,981 | 255,419 |
| Add: Payables on equipment, beginning of period | 62,151 | 50,737 |
| Less: Payables on equipment, end of period | <u>(52,615)</u> | <u>(62,151)</u> |
| Cash paid | <u>\$ 298,517</u> | <u>244,005</u> |

(g) Right-of-use assets

The movement of the cost, accumulated depreciation and impairment losses of the leased buildings and machinery and equipment of the Group were as follows:

| | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Total</u> |
|------------------------------|---------------------|--|------------------|
| Cost: | | | |
| Balance at January 1, 2021 | \$ 2,189,526 | 2,086 | 2,191,612 |
| Additions | 430,291 | - | 430,291 |
| Lease adjustment | 109,749 | - | 109,749 |
| Derecognized | <u>(136,177)</u> | <u>-</u> | <u>(136,177)</u> |
| Balance at December 31, 2021 | <u>\$ 2,593,389</u> | <u>2,086</u> | <u>2,595,475</u> |
| Balance at January 1, 2020 | \$ 1,855,306 | 2,086 | 1,857,392 |
| Additions | 553,986 | - | 553,986 |
| Lease adjustment | (44,448) | - | (44,448) |
| Derecognized | <u>(175,318)</u> | <u>-</u> | <u>(175,318)</u> |
| Balance at December 31, 2020 | <u>\$ 2,189,526</u> | <u>2,086</u> | <u>2,191,612</u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

| | <u>Buildings</u> | <u>Machinery and equipment</u> | <u>Total</u> |
|---|---------------------|--|------------------|
| Accumulated depreciation and impairment losses: | | | |
| Balance at January 1, 2021 | \$ 701,228 | 538 | 701,766 |
| Depreciation | 443,382 | 269 | 443,651 |
| Derecognized | <u>(117,920)</u> | <u>-</u> | <u>(117,920)</u> |
| Balance at December 31, 2021 | <u>\$ 1,026,690</u> | <u>807</u> | <u>1,027,497</u> |
| Balance at January 1, 2020 | \$ 407,149 | 269 | 407,418 |
| Depreciation | 422,656 | 269 | 422,925 |
| Derecognized | (130,394) | - | (130,394) |
| Impairment losses | <u>1,817</u> | <u>-</u> | <u>1,817</u> |
| Balance at December 31, 2020 | <u>\$ 701,228</u> | <u>538</u> | <u>701,766</u> |
| Carrying amounts: | | | |
| Balance at December 31, 2021 | <u>\$ 1,566,699</u> | <u>1,279</u> | <u>1,567,978</u> |
| Balance at January 1, 2020 | <u>\$ 1,448,157</u> | <u>1,817</u> | <u>1,449,974</u> |
| Balance at December 31, 2020 | <u>\$ 1,488,298</u> | <u>1,548</u> | <u>1,489,846</u> |

(h) Short-term borrowings

The short-term borrowings were summarized as follows:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--------------------------------|------------------------------|------------------------------|
| Unsecured bank loans | \$ - | <u>100,000</u> |
| Range of interest rates | - | <u>0.95%</u> |
| Unused short-term credit lines | <u>\$ 399,500</u> | <u>599,500</u> |

The Group did not pledge its assets as collateral for its bank loans.

(i) Short-term notes and bills payable

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--------------------------------|------------------------------|------------------------------|
| Commercial paper payable | \$ - | <u>399,863</u> |
| Range of interest rates | - | <u>0.948%~0.958%</u> |
| Unused short-term credit lines | <u>\$ 500,000</u> | <u>100,000</u> |

The Group did not pledge its assets as collateral for the issuance of short-term notes and bills.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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(j) Lease liabilities

The carrying amount of the Group's lease liabilities were as follows:

| | <u>December 31,</u> <u>2021</u> | <u>December 31,</u> <u>2020</u> |
|-------------|------------------------------------|------------------------------------|
| Current | <u>\$ 438,590</u> | <u>413,030</u> |
| Non-current | <u>\$ 1,182,845</u> | <u>1,131,990</u> |

For the maturity analysis, please refer to note 6(s).

The amounts recognized in profit or loss were as follows:

| | <u>2021</u> | <u>2020</u> |
|--|------------------|---------------|
| Interests on lease liabilities | <u>\$ 15,649</u> | <u>15,550</u> |
| Income from subleasing right-of-use assets | <u>\$ (193)</u> | <u>(295)</u> |
| Expenses relating to short-term leases | <u>\$ 11,449</u> | <u>12,885</u> |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | <u>\$ 2,696</u> | <u>3,129</u> |

The amounts recognized in the statement of cash flows by the Group were as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------------|-------------------|----------------|
| Total cash outflow for leases | <u>\$ 475,241</u> | <u>452,230</u> |

(i) Real estate leases

The Group leases land and buildings for its retail stores, warehouse, and office space. The leases of office space typically run for a period of 3 to 5 years, and of retail stores for 2 to 10 years. Some leases include an option to renew the lease for an additional period after the end of the contract term.

The Group subleases some of its right-of-use assets under finance leases; please refer to note 6(c).

(ii) Other leases

The Group leases machinery and equipment, with lease terms of 1 to 8 years. These leases are short-term or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(k) Employee benefit

(i) Defined benefit plan

The Group makes defined benefit plan contributions based on 2% of monthly salary to the bank account. The details of expenses were as follows:

| | <u>2021</u> | <u>2020</u> |
|--|--------------|-------------|
| | <u>\$ 28</u> | <u>-</u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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(ii) Defined contribution plans

The Group makes defined benefit plan contributions based on 6% of monthly salary to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group has no legal or constructive obligation to pay additional amounts once the Group has contributed a fixed amount to the Bureau of Labor Insurance.

The following pension expenses under the provisions of the Labor Pension Act have been contributed to the Bureau of Labor Insurance:

| | 2021 | 2020 |
|--|------------------|---------------|
| | \$ 71,300 | 65,959 |
| | 71,300 | 65,959 |

(l) Income taxes

(i) Income tax expenses

The components of income tax for 2021 and 2020 were as follows:

| | 2021 | 2020 |
|-------------------------------|------------------|---------------|
| Current tax expenses | | |
| Current period | \$ 48,797 | 55,120 |
| Adjustments for prior periods | (13) | (4,695) |
| | 48,784 | 50,425 |
| Deferred tax expenses | | |
| Current period | (2,483) | (2,522) |
| Income tax expenses | \$ 46,301 | 47,903 |

There is no income tax directly recognized under equity for 2021 and 2020.

Reconciliation of income tax and profit before tax for 2021 and 2020 were as follows:

| | 2021 | 2020 |
|--|------------------|---------------|
| Income before income tax | \$ 240,804 | 229,869 |
| Income tax using the company's domestic tax rate | 48,161 | 45,974 |
| Prior year's income tax adjustment | (13) | (4,695) |
| Change in unrecognized temporary differences | 663 | 847 |
| Others | (2,510) | 5,777 |
| Income tax expenses | \$ 46,301 | 47,903 |

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(ii) Deferred income tax assets

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|------------------------------|------------------------------|
| Tax effect of deductible temporary differences | \$ 33 | 71 |
| Tax loss | <u>3,849</u> | <u>3,027</u> |
| | <u><u>\$ 3,882</u></u> | <u><u>3,098</u></u> |

The R.O.C. Income Tax Act allows net losses, as assessed by the tax authorities, to offset taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2021, the Group's unused tax losses for which no deferred tax assets were recognized were as follows:

| <u>Year of loss</u> | <u>Unused tax loss</u> | <u>Expiry year</u> |
|---------------------|-------------------------|--------------------|
| 2018 | \$ 5,098 | 2028 |
| 2019 | 5,835 | 2029 |
| 2020 | 4,078 | 2030 |
| 2021 | <u>3,632</u> | 2031 |
| | <u><u>\$ 18,643</u></u> | |

2) Recognized deferred tax assets

Changes in the amounts of deferred tax assets (recorded as other non-current assets) for 2021 and 2020 were as follows:

| | <u>Loss on investment</u> | <u>Unrealized Loss on inventories</u> | <u>Deferred income</u> | <u>Compensation for unused annual leave</u> | <u>Impairment loss</u> | <u>Others</u> | <u>Total</u> |
|------------------------------------|-------------------------------|---|----------------------------|---|----------------------------|-------------------|----------------------|
| Deferred income tax assets: | | | | | | | |
| Balance on January 1, 2021 | \$ 3,208 | 1,597 | 3,096 | 4,320 | 1,714 | 11 | 13,946 |
| Recognized in profit or loss | <u>554</u> | <u>838</u> | <u>1,394</u> | <u>656</u> | <u>(374)</u> | <u>180</u> | <u>3,248</u> |
| Balance on December 31, 2021 | <u><u>\$ 3,762</u></u> | <u><u>2,435</u></u> | <u><u>4,490</u></u> | <u><u>4,976</u></u> | <u><u>1,340</u></u> | <u><u>191</u></u> | <u><u>17,194</u></u> |
| Balance on January 1, 2020 | \$ 2,252 | - | 1,363 | 4,096 | - | 3,713 | 11,424 |
| Recognized in profit or loss | <u>956</u> | <u>1,597</u> | <u>1,733</u> | <u>224</u> | <u>1,714</u> | <u>(3,702)</u> | <u>2,522</u> |
| Balance on December 31, 2020 | <u><u>\$ 3,208</u></u> | <u><u>1,597</u></u> | <u><u>3,096</u></u> | <u><u>4,320</u></u> | <u><u>1,714</u></u> | <u><u>11</u></u> | <u><u>13,946</u></u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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- (iii) Recognized deferred tax liabilities

| | Profit on investment |
|----------------------------------|---------------------------------|
| Deferred tax liabilities: | |
| Balance at January 1, 2021 | \$ - |
| Recognized in profit or loss | (765) |
| Balance at December 31, 2021 | \$ (765) |

- (iv) The tax authorities have examined the Company's income tax for the year 2019.

The tax authorities have examined the subsidiary's income tax for the year 2020.

- (m) Capital and other equity

As of December 31, 2021 and 2020, the Company's authorized capital consisted of 80,000 thousand shares, amounting to \$800,000 thousand, with par value of \$10 per share. In 2021 and 2020, all of the issued shares were ordinary shares consisted of 67,500 thousand shares and 60,000 thousand shares, respectively.

The movement of shares outstanding for the years ended December 31, 2021 and 2020, was as follows (expressed in thousand shares):

| | Ordinary Shares | |
|---|------------------------|---------------|
| | 2021 | 2020 |
| Beginning balance of the period | \$ 59,700 | 60,000 |
| Treasury stock transferred to employees | 300 | - |
| Capital increase by cash | 7,500 | - |
| Purchase of treasury stocks | - | (300) |
| Ending balance of the period | \$ 67,500 | 59,700 |

- (i) Ordinary shares

On July 7, 2021, the Company's Board of Directors resolved to issue 7,500 thousand shares, with par value of \$10 per share, amounting to \$75,000 thousand for pre-initial public offering placement. The public subscription price was \$69 per share at premium, and the average transaction price of the competitive auction was \$71.68 per share at premium. In accordance with Article 267 of the Company Act, 10% of the total number of shares issued, amounting to 750,000 shares, were reserved for subscription by the Company's employees. The Chairman shall be fully authorized to arrange for subscription by specific persons at the issuance price, of any unsubscribed shares or subscription of shares waived by employees. On August 27, 2021, the above issuance of shares for cash capital increase was approved by the Taiwan Stock Exchange, with November 29, 2021, as the date of capital increase, the total amount for subscription was \$531,967 thousand, after deducting the issuance cost of \$3,000 thousand, the total amount of cash received for the capital increase was \$528,967 thousand, which was fully received and the related registration procedures were completed. The premium on issuance of common stock was \$453,967 thousand, and was recorded as capital surplus.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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(ii) Capital surplus

The balances of capital surplus were as follows:

| | December 31, 2021 | December 31, 2020 |
|-------------------------------------|------------------------------|------------------------------|
| Premium on issuance of common stock | \$ 959,010 | 505,043 |
| Others | <u>33,105</u> | <u>32,895</u> |
| | <u>\$ 992,115</u> | <u>537,938</u> |

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received.

(iii) Retained earnings

The Company's Articles of Incorporation stipulate that if there is a surplus at year-end, after the payment of income tax and offsetting accumulated deficits, 10% of the remaining balance should be set aside as legal reserve until such retention equals to the total paid-in capital, and then any remaining profit together with any undistributed retained earnings of previous years and the adjustment of the undistributed earnings of the current year shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the shareholders' meeting for approval.

1) Legal reserve

When a company incurs no loss, it may pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

2) Earnings distribution

The appropriations of earnings for 2020 and 2019 had been approved in the shareholders' meeting held on July 7, 2021 and June 29, 2020, respectively. These earnings were appropriated as follows:

| | 2020 | 2019 |
|---|--------------------------|----------------------|
| Legal reserve | \$ 18,197 | 4,212 |
| Dividends distributed to ordinary shareholders: | | |
| Cash | <u>163,769</u> | <u>37,909</u> |
| Total | <u>\$ 181,966</u> | <u>42,121</u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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On February 25, 2022, the Company's Board of Directors resolved to appropriate the earnings for 2021 as follows:

| | |
|---|-------------------|
| | 2021 |
| Dividends distributed to ordinary shareholders: | |
| Cash | \$ 175,053 |

The related information can be accessed on the Market Observation Post System website.

- (iv) In 2020, in accordance with the requirements under section 167(1) of the Company Act, the Group purchased 300 thousand shares as treasury stocks in order to transfer to employees. In July 2021, all of the treasury stocks were transferred to employees.
- (n) Share-based payment
- (i) As of December 31, 2021, the details of treasury stock transferred to employees were as follows:

| | |
|--------------------------|--|
| | Treasury stock transferred to employees |
| Grant date | July 7, 2021 |
| Number of shares granted | 300 |
| Recipients | Eligible employees |
| Vesting Conditions | Immediately vested |

- 1) The Group used the Black-Scholes option pricing method in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

| | |
|-----------------------------|--|
| | 2021 |
| | Treasury stock transferred to employees |
| Fair value at grant date | 77.28 |
| Exercise price | 70.40 |
| Expected volatility (%) | 15.00 |
| Expected life (years) | 0.04 |
| Risk-free interest rate (%) | 0.0973 |

- 2) Employees benefit expenses

As of December 31, 2021, the compensation cost resulting from the transfer of treasury stocks to employees amounted to \$2,062 thousand.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

- (ii) As of December 31, 2021, the details of cash capital increase reserved for employee subscription were as follows:

| | Cash capital increase reserved for employee subscription |
|--------------------------|---|
| Grant date | November 4, 2021 |
| Number of shares granted | 357 |
| Recipients | Eligible employees |
| Vesting Conditions | Immediately vested |

- 1) The Group used the Black-Scholes option pricing method in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

| | 2021 Cash capital increase reserved for employee subscription |
|-----------------------------|--|
| Fair value at grant date | 77.06 |
| Exercise price | 69.00 |
| Expected volatility (%) | 28.69 |
| Expected life (years) | 0.06 |
| Risk-free interest rate (%) | 0.222 |

- 2) Employees benefit expenses

As of December 31, 2021, the compensation cost resulting from the cash capital increase reserved for employee subscription amounted to \$2,456 thousand.

- (o) Earnings per share

Basic earnings per share and diluted earnings per share were computed as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|----------------|
| Basic earnings per share | | |
| Profit attributable to ordinary shareholders of the Company | \$ <u>194,503</u> | <u>181,966</u> |
| Weighted-average number of ordinary shares outstanding | <u>60,511</u> | <u>59,786</u> |
| | \$ <u>3.21</u> | <u>3.04</u> |
| Diluted earnings per share | | |
| Profit attributable to ordinary shareholders of the Company (diluted) | \$ <u>194,503</u> | <u>181,966</u> |

(Continued)

SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|----------------------|
| Weighted-average number of ordinary shares outstanding | 60,511 | 59,786 |
| Effect of dilutive potential ordinary shares - employee share bonus | <u>57</u> | <u>42</u> |
| Weighted-average number of ordinary shares outstanding (diluted) | <u>60,568</u> | <u>59,828</u> |
| | <u>\$ 3.21</u> | <u>3.04</u> |

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time or at a point in time, and the amounts of revenue for the years ended December 31, 2021 and 2020 were as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------|-----------------------------|--------------------------|
| Sale of goods | \$ 13,333,520 | 12,605,189 |
| Others operating income | <u>652,373</u> | <u>617,390</u> |
| | <u>\$ 13,985,893</u> | <u>13,222,579</u> |

(ii) Contract balances

- 1) Recognition of contract liabilities relating to revenue from customer contracts were as follows:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|------------------------------|------------------------------|
| Contract liabilities - current - customer loyalty program | \$ 22,452 | 23,646 |
| Contract liabilities - current - franchise royalty fee | 7,026 | 8,956 |
| Contract liabilities - current - others | <u>249</u> | <u>-</u> |
| Total | <u>\$ 29,727</u> | <u>32,602</u> |
| Contract liabilities - non-current - franchise royalty fee | <u>\$ 10,644</u> | <u>15,782</u> |

- 2) The amounts of revenue recognized for the years ended December 31, 2021 and 2020, was included in the contract liabilities balance at the beginning of the period, were \$34,164 thousand and \$25,700 thousand, respectively.

(q) Remunerations to employees and directors

In accordance with the Articles of Incorporation the Company should contribute no less than 1% of the profit as employee remuneration and no higher than 3% as directors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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For the years ended December 31, 2021 and 2020, the Company estimated its employee remuneration at \$3,600 thousand and \$3,360 thousand, and directors' remuneration at \$3,500 thousand and \$2,400 thousand, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's articles. These remunerations were expensed under operating expenses during 2021 and 2020. If there are any subsequent adjustments to the actual remuneration amounts, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. There was no difference with the actual distribution. The information is available on the Market Observation Post System website.

(r) Government subsidy

As of December 31, 2021 and 2020, the Group obtained a utility bill relief and operating subsidy in accordance with the Ministry of Economic Affairs Approach to the Relief of Industries which were Affected by Severe Pneumonia with Novel Pathogens, which amounted to \$14,700 thousand and \$9,762 thousand (recorded as other income).

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

The Group has a large and unrelated customer base. Therefore, concentration of credit risk is limited.

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments.

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within 1 year</u> | <u>More than 1 year</u> |
|---|----------------------------|-----------------------------------|--------------------------|-----------------------------|
| December 31, 2021 | | | | |
| Non derivative financial liabilities | | | | |
| Notes payable | \$ 74 | 74 | 74 | - |
| Accounts payable | 1,303,850 | 1,303,850 | 1,303,850 | - |
| Accounts payable - related parties | 7,272 | 7,272 | 7,272 | - |
| Other payables | 488,847 | 488,847 | 488,847 | - |
| Lease liabilities (include current and non-current) | 1,621,435 | 1,659,464 | 451,598 | 1,207,866 |
| Guarantee deposits received | 118,794 | 118,794 | - | 118,794 |
| | <u>\$ 3,540,272</u> | <u>3,578,301</u> | <u>2,251,641</u> | <u>1,326,660</u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

| | <u>Carrying amount</u> | <u>Contractual cash flows</u> | <u>Within 1 year</u> | <u>More than 1 year</u> |
|---|----------------------------|-----------------------------------|--------------------------|-----------------------------|
| December 31, 2020 | | | | |
| Non derivative financial liabilities | | | | |
| Short-term borrowings | \$ 100,000 | 100,049 | 100,049 | - |
| Short-term notes and bills payable | 399,863 | 400,000 | 400,000 | - |
| Notes payable | 948 | 948 | 948 | - |
| Accounts payable | 1,015,735 | 1,015,735 | 1,015,735 | - |
| Accounts payable - related parties | 1,349 | 1,349 | 1,349 | - |
| Other payables | 460,434 | 460,434 | 460,434 | - |
| Lease liabilities (include current and non-current) | 1,545,020 | 1,618,845 | 430,873 | 1,187,972 |
| Guarantee deposits received | <u>134,469</u> | <u>134,469</u> | <u>-</u> | <u>134,469</u> |
| | <u>\$ 3,657,818</u> | <u>3,731,829</u> | <u>2,409,388</u> | <u>1,322,441</u> |

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follows:

| | <u>December 31, 2021</u> | | | <u>December 31, 2020</u> | | |
|------------------------------|-----------------------------|--------------------------|------------|-----------------------------|--------------------------|------------|
| | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>TWD</u> | <u>Foreign currency</u> | <u>Exchange rate</u> | <u>TWD</u> |
| Financial assets | | | | | | |
| Monetary items | | | | | | |
| USD | \$ 134 | 27.630 | 3,702 | 20 | 28.430 | 567 |
| EUR | 81 | 31.120 | 2,528 | 55 | 34.820 | 1,923 |
| JPY | 3,530 | 0.239 | 842 | 1,488 | 0.274 | 408 |
| Financial liabilities | | | | | | |
| Monetary items | | | | | | |
| EUR | 105 | 31.120 | 3,273 | 143 | 34.820 | 4,980 |

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on financial assets and liabilities that are denominated in foreign currency. A weakening or strengthening of 1% of the NTD against the USD, EUR, and JPY as of December 31, 2021 and 2020 would have increased or decreased the net profit after tax by \$30 thousand and \$(17) thousand, respectively, assuming all other factors remain constant. The analysis is performed on the same basis for the years ended December 31, 2021 and 2020.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

(iv) Interest rate analysis

Please refer to the notes 6(t) on liquidity risk management and interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the exposure to the interest rate risk of non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.5% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.5%, the Group's net income would have decreased or increased by \$0 thousand and \$400 thousand for the years ended December 31, 2021 and 2020, respectively, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at variable rates.

(v) Fair value of financial instruments

The Group's management considers that the carrying amounts of the Group classified as loans and receivables, financial assets measured at amortized cost and financial liabilities measured at amortized cost approximate the fair values in the current consolidated financial statements, and lease liabilities are not required to disclose fair value information.

(t) Financial risk management

(i) Overview

The Group has exposures to the following risks from its financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the consolidated financial statements.

(ii) Structure of risk management

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and bank deposits. The Group's bank deposits are placed with creditworthy public and large private financial institutions, and there are no significant credit risks as there are no major performance concerns. The Group's notes and accounts receivable are mainly due from credit cards, which are received from creditworthy banks and do not give rise to significant credit risks.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to manage liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, and has sufficient bank facilities to cover its daily operating turnover. Therefore, there is no liquidity risk due to the inability to raise funds to meet contractual obligations.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group's functional currency is TWD, some of its purchase transactions are denominated in EUR, USD and JPY. The Group always buy foreign currency at spot rate, and these transactions do not expose any significant exchange rate risk.

2) Interest rate risk

Interest risk is the risk that changes in market interest rates will affect the fair value of the Group's financial instrument. The Group's bank deposits and short-term borrowings are floating rate debts. Therefore, there is a risk that changes in market interest rates will cause the effective interest rates on its short-term borrowings to change accordingly, resulting in fluctuations in its future cash flows.

(u) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. The Group's policy is to manage its capital to safeguard the capacity to continue as a going concern, to continue to provide returns for shareholders, maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

As of December 31, 2021, the Group's capital management was remaining constant.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
Notes to the Consolidated Financial Statements

(v) Changes of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities were as follows:

| | January 1, 2021 | Cash flows | Non-cash changes Changes in lease | December 31, 2021 |
|---|----------------------------|-----------------------|--|------------------------------|
| Short-term borrowings | \$ 100,000 | (100,000) | - | - |
| Short-term notes and bills payable | 399,863 | (399,863) | - | - |
| Lease liabilities | 1,545,020 | (445,640) | 522,055 | 1,621,435 |
| Total liabilities from financing activities | <u>\$ 2,044,883</u> | <u>(945,503)</u> | <u>522,055</u> | <u>1,621,435</u> |

| | January 1, 2020 | Cash flows | Non-cash changes Changes in lease | December 31, 2020 |
|---|----------------------------|-----------------------|--|------------------------------|
| Short-term borrowings | \$ 480,000 | (380,000) | - | 100,000 |
| Short-term notes and bills payable | 299,801 | 100,062 | - | 399,863 |
| Lease liabilities | 1,516,325 | (420,961) | 449,656 | 1,545,020 |
| Total liabilities from financing activities | <u>\$ 2,296,126</u> | <u>(700,899)</u> | <u>449,656</u> | <u>2,044,883</u> |

(7) Related-party transactions:

(a) Names and relationship with related-parties

Related companies trading within the financial reporting period were as follows:

| <u>Name of related-party</u> | <u>Relationship with the Group</u> |
|-------------------------------------|---|
| Mercuries & Associates Holding Ltd. | Parent company |
| Sanyou Drugstores Co., Ltd. | Associate (Note) |
| Sumitomo Corporation | An entity with significant influence over the Group |
| Mercuries Data Systems Ltd. | Other related party |
| Mercuries Liquor & Food Co., Ltd. | Other related party |
| Mercuries & Associates Ltd. | Other related party |
| Mercuries Fu Bao Ltd. | Other related party |
| Mercuries F&B Co., Ltd. | Other related party |
| Mercuries Life Insurance Co., Ltd. | Other related party |
| Horizon Securities Co., Ltd. | Other related party |
| Taiwan Masters Golf Foundation | Other related party |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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| <u>Name of related-party</u> | <u>Relationship with the Group</u> |
|---|------------------------------------|
| Mercuries Social Welfare and Charity Foundation, Taoyuan County | Other related party |
| Criminal Investigation and Prevention Association, R.O.C. | Other related party |
| Pharmacyplus Co., Ltd. | Other related party |
| Simple Mart Retail Co., Ltd. Employee Welfare Committee | Other related party |
| Mercuries F&B Consulting Co., Ltd. | Other related party |

The Group's directors, general manager and vice general managers

Note: Sanyou Drugstores Co., Ltd. is the Company's other related party before December 2020.

(b) Significant transactions with related parties

(i) Sales

The amounts of sales to related parties is less than 1% of the total annual revenue.

The sales prices and trade terms to its related parties were mutually agreed between the two parties.

(ii) Purchases

The amounts of purchases from related parties were as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------------|------------------|--------------|
| Associate | \$ 18,327 | - |
| Other related parties | <u>9,961</u> | <u>5,688</u> |
| | <u>\$ 28,288</u> | <u>5,688</u> |

The purchase prices and payment terms from its other related parties were mutually agreed between the two parties.

(iii) Receivables from related parties

The receivables from related parties were as follows:

| <u>Accounts</u> | <u>Type of related parties</u> | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|---------------------|--|--------------------------|--------------------------|
| Accounts receivable | Associate | \$ 3,261 | 2,492 |
| Accounts receivable | Other related parties | 104 | 121 |
| Other receivables | Associate (excluding property and lease transaction) | 191 | 31 |
| Other receivables | Other related parties (excluding property transaction) | <u>15</u> | <u>1,104</u> |
| | | <u>\$ 3,571</u> | <u>3,748</u> |

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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The receivables from related parties are generated by sales of goods.

(iv) Payables from related parties

The payables from related parties were as follows:

| <u>Accounts</u> | <u>Type of related parties</u> | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|------------------|--|------------------------------|------------------------------|
| Accounts payable | Associate | \$ 3,934 | - |
| Accounts payable | Other related parties | 3,338 | 1,349 |
| Other payables | Other related parties (excluding property and lease transaction) | <u>453</u> | <u>331</u> |
| | | <u><u>\$ 7,725</u></u> | <u><u>1,680</u></u> |

The payables from related parties are generated by the payment of goods purchased and incidental expenses.

(v) Prepayments

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|-----------------------|------------------------------|------------------------------|
| Other related parties | <u>\$ 2,924</u> | <u>2,857</u> |

(vi) Property transactions

1) The acquisitions of financial assets from related parties were summarized as follows:

| <u>Relationship</u> | <u>Account</u> | <u>2020</u> | |
|---|--|-----------------------------|-----------------------------------|
| | | <u>Number of shares</u> | <u>Purpose</u> |
| Other related party - Sumitomo Corporation | Investments accounted for using the equity method | 45,000 | Sanyou Drugstores Co., Ltd. |
| | | | <u><u>55,980</u></u> |

Please refer to note 6(e).

2) The prices of equipment acquired from related parties were summarized as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------------|-----------------|--------------|
| Other related parties | <u>\$ 1,028</u> | <u>4,086</u> |

As of December 31, 2021 and 2020, the remaining unpaid balances were \$188 thousand and \$201 thousand, respectively, and were recorded as other payables.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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- 3) The disposals of property, plant and equipment to related parties were summarized as follows:

| <u>Type of related parties</u> | <u>2021</u> | | <u>2020</u> | |
|--------------------------------|-----------------|------------------------------------|-----------------|------------------------------------|
| | <u>Proceeds</u> | <u>Gain (loss) on disposal</u> | <u>Proceeds</u> | <u>Gain (loss) on disposal</u> |
| Associate: | | | | |
| Sanyou Drugstores Co., Ltd. | \$ 250 | 25 | - | - |
| Other related party: | | | | |
| Sanyou Drugstores Co., Ltd. | - | - | 123 | 5 |
| Mercuries F&B Co., Ltd. | - | - | 389 | (79) |
| | <u>\$ 250</u> | <u>25</u> | <u>512</u> | <u>(74)</u> |

For the year ended December 31, 2021 and 2020, the Group sold its office equipment to Sanyou Drugstores Co., Ltd., with the selling price amounting to \$250 thousand and \$123 thousand. As of December 31, 2021 and 2020, the unpaid balances were \$0 thousand and \$129 thousand. For the year ended December 31, 2021 and 2020, the Group sold its office equipment to Mercuries F&B Co., Ltd, with the selling price amounting to \$0 thousand and \$389 thousand. As of December 31, 2021 and 2020, the unpaid balances were \$0 thousand and \$408 thousand.

(vii) Leases

The Group rented buildings as office space and warehouse from other related parties. For the years ended December 31, 2021 and 2020, the Group recognized \$25 thousand and \$37 thousand as interest expenses, respectively. As of December 31, 2021 and 2020, the balance of lease liabilities amounting to \$1,895 thousand and \$2,994 thousand, respectively.

The Group subleases the leased office space to its associate, and classified it as finance leases. As of December 31, 2021 and 2020, the balance of finance leases receivable amounting to \$3,591 thousand and \$5,829 thousand, respectively.

(viii) Guarantee deposits paid

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|-----------------------|------------------------------|------------------------------|
| Other related parties | <u>\$ 292</u> | <u>292</u> |

The above transactions were guarantee deposits of office leases.

(ix) Guarantee deposits received

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|-----------------------|------------------------------|------------------------------|
| Associate | \$ 200 | 200 |
| Other related parties | 100 | 100 |
| | <u>\$ 300</u> | <u>300</u> |

The above transactions were guarantee deposits of office leases.

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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(x) Other operating expenses

| | <u>2021</u> | <u>2020</u> |
|-----------------------|------------------|--------------|
| Associate | \$ 4 | - |
| Other related parties | <u>11,588</u> | <u>7,118</u> |
| | <u>\$ 11,592</u> | <u>7,118</u> |

The above transactions were insurance and maintenance fees, etc.

(xi) Other incomes

| | <u>2021</u> | <u>2020</u> |
|-----------------------|-----------------|-------------|
| Associate | \$ 1,524 | 282 |
| Other related parties | <u>-</u> | <u>4</u> |
| | <u>\$ 1,524</u> | <u>286</u> |

The above transactions were the payment for services provided.

(c) Key management personnel compensation

| | <u>2021</u> | <u>2020</u> |
|------------------------------|------------------|---------------|
| Short-term employee benefits | \$ 37,965 | 36,596 |
| Post-employment benefits | 996 | 890 |
| Share-based payments | <u>1,245</u> | <u>-</u> |
| | <u>\$ 40,206</u> | <u>37,486</u> |

(8) Pledged assets:

The carrying amounts of the Group's pledged assets were as follows:

| <u>Pledged Assets</u> | <u>Pledged to secure</u> | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|--|------------------------------|------------------------------|
| Time deposits (Recorded as current and non-current other financial assets) | Purchase and collection business performance guarantee | <u>\$ 158,750</u> | <u>150,750</u> |

(9) Commitments and contingencies:

- (a) The Group issued guarantee notes to obtain short-term loan commitment, as of December 31, 2021 and 2020, the balance was \$1,200,000 thousand and \$1,200,000 thousand, respectively.
- (b) The Group's performance guarantee issued by the bank due to collection business, as of December 31, 2021 and 2020, the balances were all \$500 thousand.
- (c) The Group had signed contracts of purchasing application software. As of December 31, 2020, the unpaid balance was \$239 thousand.

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- (d) The Group rent several buildings as retail stores for operation, the lease term is 6 to 8 years. The lease payments for the stores are based on a percentage of the determined revenue for each period. If the actual revenue exceeds the determined level, then the lease payments shall be calculated based on actual revenue of the period.

(10) Losses due to major disasters: None

(11) Subsequent events:

On February 25, 2022, the Group's Board of Director approved to acquire 6,000,000 shares of Sanyou Drugstores Co., Ltd. from the entity with significant influence over the Group, Mercuries & Associates Holding Ltd.

(12) Others:

A summary of employee benefits, depreciation, and amortization, by function, is as follows:

| By item | By function | For the years ended December 31, 2021 | | | For the years ended December 31, 2020 | | |
|----------------------------|-------------|--|-------------------|-----------|--|-------------------|-----------|
| | | Operating cost | Operating expense | Total | Operating cost | Operating Expense | Total |
| Employee benefits | | | | | | | |
| Salary | | - | 1,305,591 | 1,305,591 | 2,989 | 1,251,069 | 1,254,058 |
| Labor and health insurance | | - | 152,492 | 152,492 | 44 | 134,093 | 134,137 |
| Pension | | - | 71,329 | 71,329 | 21 | 65,938 | 65,959 |
| Remuneration of directors | | - | 5,000 | 5,000 | - | 4,000 | 4,000 |
| Others | | - | 94,757 | 94,757 | 155 | 83,665 | 83,820 |
| Depreciation | | - | 706,128 | 706,128 | 750 | 664,923 | 665,673 |
| Amortization | | - | 19,295 | 19,295 | - | 24,016 | 24,016 |

(13) Other disclosures:

- (a) Information on significant transactions:

The following is the information on the Group's significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the years ended December 31, 2021:

- (i) Loans to other parties: None
- (ii) Guarantees and endorsements for other parties: None
- (iii) Securities held as of December 31, 2021 (excluding investment in subsidiaries, associates and joint ventures): None
- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (v) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None

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SIMPLE MART RETAIL CO., LTD. AND SUBSIDIARY
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- (vi) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- (vii) Related-party transactions for purchases or sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (viii) Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: None
- (ix) Trading in derivative instruments: None
- (x) Business relationships and significant intercompany transactions:

There was no material business relationships and intercompany transactions in the current period.

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2021 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars/Shares)

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of December 31, 2021 | | | Highest Percentage of ownership | Net income (losses) of investee | Share of profits/losses of investee | Note |
|------------------------------|-----------------------------|----------|-------------------------------------|----------------------------|-------------------|---------------------------------|-------------------------|----------------|---------------------------------|---------------------------------|-------------------------------------|-----------|
| | | | | December 31, 2021 | December 31, 2020 | Shares | Percentage of ownership | Carrying value | | | | |
| Simple Mart Retail Co., Ltd. | Sanyou Drugstores Co., Ltd. | Taiwan | Retail sales of drugs and cosmetics | 55,980 | 55,980 | 45,000 | 45 % | 59,806 | 45 % | 10,241 | 4,375 | Associate |
| Simple Mart Retail Co., Ltd. | Simple Mart Plus Co., Ltd. | Taiwan | Retail sales of food and beverage | 60,000 | 60,000 | 6,000 | 100 % | 41,191 | 100 % | (3,317) | (3,317) | (Note) |

Note: The above transactions between parent and subsidiary are eliminated when preparing the consolidated financial statements.

- (c) Information on investment in mainland China: None
- (d) Information on major shareholders:

| Shareholder's Name | Shareholding | Shares | Percentage |
|-------------------------------------|--------------|------------|------------|
| Mercuries & Associates Holding Ltd. | | 41,018,951 | 60.77 % |
| Sumitomo Corporation | | 13,200,000 | 19.56 % |

(14) Segment information:

General information:

The Group has two reportable segments. Segment A mainly engages in selling daily commodities to customer and other segments engage in home shopping and organic products.

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The reportable segments of the Group are strategic business units that provide different products and services. Each strategic business unit is managed separately as it requires different technology and marketing strategies.

- (a) Reportable information of segments profit or loss (includes reportable segment revenue and expenses), segment assets, segment liabilities, and their measurement and reconciliations:

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, but not including any extraordinary activity and foreign exchange gain or losses because taxation, extraordinary activity, and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker. The operating segment accounting policies are similar to those described in note 4 “Significant accounting policies”.

The Group’s operating segment information and reconciliation were as follows:

| | <u>For the years ended December 31, 2021</u> | | | | |
|--|--|-----------------------|---------------------|---------------------------------------|-------------------|
| | <u>Segment A</u> | <u>Other segments</u> | <u>Headquarters</u> | <u>Reconciliation and elimination</u> | <u>Total</u> |
| Revenue: | | | | | |
| Revenue from external customers | \$ 13,875,890 | 101,374 | 8,629 | - | 13,985,893 |
| Intersegment revenues | - | - | 5,711 | (5,711) | - |
| Total revenue | <u>\$ 13,875,890</u> | <u>101,374</u> | <u>14,340</u> | <u>(5,711)</u> | <u>13,985,893</u> |
| Reportable segment profit or loss from continuing operations before tax | <u>\$ 330,369</u> | <u>(48,232)</u> | <u>(44,650)</u> | <u>3,317</u> | <u>240,804</u> |
| | | | | | |
| | <u>For the years ended December 31, 2020</u> | | | | |
| | <u>Segment A</u> | <u>Other segments</u> | <u>Headquarters</u> | <u>Reconciliation and elimination</u> | <u>Total</u> |
| Revenue: | | | | | |
| Revenue from external customers | \$ 13,091,797 | 122,837 | 7,945 | - | 13,222,579 |
| Intersegment revenues | - | - | 9,086 | (9,086) | - |
| Total revenue | <u>\$ 13,091,797</u> | <u>122,837</u> | <u>17,031</u> | <u>(9,086)</u> | <u>13,222,579</u> |
| Reportable segment profit or loss from continuing operations before tax | <u>\$ 343,431</u> | <u>(68,393)</u> | <u>(49,402)</u> | <u>4,232</u> | <u>229,868</u> |

(Continued)

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(b) Product and service information

Revenue from the external customers of the Group is mainly from convenience store business, details of revenue were as follows:

| <u>Products and services</u> | <u>2021</u> | <u>2020</u> |
|------------------------------|----------------------|-------------------|
| Sale of goods | \$ 13,333,520 | 12,605,189 |
| Service Revenue | <u>652,373</u> | <u>617,390</u> |
| Total | <u>\$ 13,985,893</u> | <u>13,222,579</u> |

(c) Geographic information

The Group does not have foreign operation; therefore, no geographic information needs to be disclosed.

(d) Major customers

No customers constituted more than 10% of the Group's total revenue for the years ended December 31, 2021 and 2020.