

FineTek Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
FineTek Co., Ltd.

Opinion

We have audited the accompanying financial statements of FineTek Co., Ltd. (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audit of the financial statements for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission of the Republic of China on February 25, 2020, and auditing standards generally accepted in the Republic of China. We conducted our audit of the financial statements for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter of the Company's financial statements for the year ended December 31, 2019 is described as follows:

The Company's operating revenue (excluding subsidiaries) in 2019 increased by approximately 1% compared with the previous year. Out of this amount, sales amounts from customers that were material and whose individual revenue growth rates exceeded the overall revenue growth rate accounted for approximately 19% of the total revenue. To meet shareholders' and external investors' expectations, the management of the Company may be under pressure to meet the profit target. Therefore, we assessed that the main risk of revenue recognition from the aforementioned group of customers is the validity of occurrence of the sales transactions from such customers, and identified this as the key audit matter. The accounting policies related to revenue recognition are disclosed in Note 4(k) to the financial statements.

The audit procedures that we performed in respect of the sales revenue from the aforementioned customers are as follows:

1. We understood the internal controls related to the sales revenue from the aforementioned customers for the year ended December 31, 2019, evaluated the design of the key controls and tested the operating effectiveness of the controls.
2. We obtained the list of the aforementioned customers for the year ended December 31, 2019 and assessed if their backgrounds, transaction amounts and credit limits granted were reasonable and consistent with their scale.
3. We selected samples of sales transactions from the aforementioned customers and checked the details of the external shipping documents to test whether there were any abnormalities between the situation and counterparties of receivables collection and the transaction terms. We also inspected if there were any significant sales returns and allowances after the reporting period in order to confirm the validity of occurrence of the sales revenue.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of an audit in accordance with the 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the 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 financial statements for the year ended December 31, 2019 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 Jung Cheng Chen and Keng Hsi Chang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 30, 2020

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

FINETEK CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

ASSETS	2019		2018	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 241,980	15	\$ 225,678	15
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	13,276	1	-	-
Notes receivable (Notes 4, 10 and 22)	17,403	1	19,932	1
Trade receivables (Notes 4, 5, 10 and 22)	73,913	5	61,033	4
Trade receivables from related parties (Notes 4, 5, 22 and 29)	39,559	2	52,423	3
Other receivables (Notes 4 and 10)	576	-	969	-
Other receivables from related parties (Notes 4 and 29)	2,895	-	164	-
Inventories (Notes 4 and 11)	129,945	8	149,945	10
Other financial assets - current (Notes 4, 16 and 30)	2,700	-	11,454	1
Other current assets (Notes 4 and 16)	<u>1,312</u>	<u>-</u>	<u>1,406</u>	<u>-</u>
Total current assets	<u>523,559</u>	<u>32</u>	<u>523,004</u>	<u>34</u>
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4 and 8)	15,000	1	-	-
Financial assets at amortized cost - non-current (Notes 4 and 9)	11,995	1	12,289	1
Investments accounted for using the equity method (Notes 4 and 12)	715,752	44	633,132	41
Property, plant and equipment (Notes 4, 13 and 29)	310,690	19	324,982	21
Right-of-use assets (Notes 3, 4 and 14)	333	-	-	-
Other intangible assets (Notes 4 and 15)	16,569	1	19,655	1
Deferred tax assets (Notes 4 and 24)	24,076	1	18,424	1
Other non-current assets (Notes 4, 16 and 20)	<u>8,361</u>	<u>1</u>	<u>5,111</u>	<u>1</u>
Total non-current assets	<u>1,102,776</u>	<u>68</u>	<u>1,013,593</u>	<u>66</u>
TOTAL	<u>\$ 1,626,335</u>	<u>100</u>	<u>\$ 1,536,597</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 17)	\$ 65,000	4	\$ -	-
Contract liabilities - current (Notes 4 and 22)	9,924	1	9,974	1
Notes payable (Note 18)	5,341	-	6,460	-
Trade payables (Note 18)	37,228	2	37,258	2
Trade payables to related parties (Note 29)	3,198	-	3,298	-
Other payables (Notes 19 and 26)	60,553	4	58,745	4
Current tax liabilities (Notes 4 and 24)	19,520	1	27,990	2
Lease liabilities - current (Notes 3, 4 and 14)	128	-	-	-
Other current liabilities (Note 19)	<u>491</u>	<u>-</u>	<u>627</u>	<u>-</u>
Total current liabilities	<u>201,383</u>	<u>12</u>	<u>144,352</u>	<u>9</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 24)	63,233	4	62,347	4
Lease liabilities - non-current (Notes 3, 4 and 14)	<u>206</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-current liabilities	<u>63,439</u>	<u>4</u>	<u>62,347</u>	<u>4</u>
Total liabilities	<u>264,822</u>	<u>16</u>	<u>206,699</u>	<u>13</u>
EQUITY (Notes 4 and 21)				
Share capital				
Ordinary shares	423,837	26	403,892	26
Capital surplus	319,889	20	319,889	21
Retained earnings				
Legal reserve	202,136	12	180,576	12
Special reserve	29,548	2	25,871	2
Unappropriated earnings	475,564	29	466,191	30
Other equity				
Exchange differences on translating foreign operations	(52,488)	(3)	(29,548)	(2)
Treasury shares	<u>(36,973)</u>	<u>(2)</u>	<u>(36,973)</u>	<u>(2)</u>
Total equity	<u>1,361,513</u>	<u>84</u>	<u>1,329,898</u>	<u>87</u>
TOTAL	<u>\$ 1,626,335</u>	<u>100</u>	<u>\$ 1,536,597</u>	<u>100</u>

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

FINETEK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4, 22 and 29)	\$ 716,399	100	\$ 751,012	100
OPERATING COSTS (Notes 11, 23 and 29)	<u>353,581</u>	<u>49</u>	<u>368,293</u>	<u>49</u>
GROSS PROFIT	362,818	51	382,719	51
UNREALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Notes 4 and 29)	(15,802)	(2)	(24,545)	(3)
REALIZED GAIN ON TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (Notes 4 and 29)	<u>24,545</u>	<u>3</u>	<u>16,380</u>	<u>2</u>
REALIZED GROSS PROFIT	<u>371,561</u>	<u>52</u>	<u>374,554</u>	<u>50</u>
OPERATING EXPENSES (Notes 23 and 29)				
Selling and marketing expenses	99,952	14	99,185	13
General and administrative expenses	50,355	7	46,874	6
Research and development expenses	50,298	7	49,531	7
Expected credit loss reversed (Notes 4 and 10)	<u>(2,439)</u>	<u>-</u>	<u>(394)</u>	<u>-</u>
Total operating expenses	<u>198,166</u>	<u>28</u>	<u>195,196</u>	<u>26</u>
PROFIT FROM OPERATIONS	<u>173,395</u>	<u>24</u>	<u>179,358</u>	<u>24</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4 and 23)				
Other income	8,617	1	16,012	2
Other gains and losses (Note 29)	4,537	1	7,007	1
Finance costs	(460)	-	(21)	-
Share of profit or loss of subsidiaries, associates and joint ventures	<u>74,515</u>	<u>10</u>	<u>70,095</u>	<u>9</u>
Total non-operating income and expenses	<u>87,209</u>	<u>12</u>	<u>93,093</u>	<u>12</u>
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS	260,604	36	272,451	36
INCOME TAX EXPENSE (Notes 4 and 24)	<u>(46,595)</u>	<u>(6)</u>	<u>(56,848)</u>	<u>(7)</u>
NET PROFIT FOR THE YEAR	<u>214,009</u>	<u>30</u>	<u>215,603</u>	<u>29</u>

(Continued)

FINETEK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan (Note 20)	\$ 129	-	\$ (230)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 24)	(26)	-	122	-
	<u>103</u>	<u>-</u>	<u>(108)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations (Note 21)	(28,675)	(4)	(5,207)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 21 and 24)	5,735	1	1,530	-
	<u>(22,940)</u>	<u>(3)</u>	<u>(3,677)</u>	<u>(1)</u>
Other comprehensive loss for the year, net of income tax	<u>(22,837)</u>	<u>(3)</u>	<u>(3,785)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 191,172</u>	<u>27</u>	<u>\$ 211,818</u>	<u>28</u>
EARNINGS PER SHARE (Note 25)				
From continuing operations				
Basic	<u>\$ 5.11</u>		<u>\$ 5.10</u>	
Diluted	<u>\$ 5.09</u>		<u>\$ 5.08</u>	

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

(Concluded)

FINETEK CO., LTD.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	<u>Share Capital</u> <u>Ordinary</u> <u>Shares</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>		<u>Unappropriated</u> <u>Earnings</u>	<u>Other Equity</u> <u>Exchange</u> <u>Differences on</u> <u>Translating</u> <u>Foreign</u> <u>Financial</u> <u>Statements of</u> <u>Foreign</u> <u>Operations</u>	<u>Treasury</u> <u>Shares</u>	<u>Total Equity</u>
BALANCE AT JANUARY 1, 2018	\$ 403,892	\$ 319,889	\$ 161,024	\$ 19,659	\$ 438,017	\$ (25,871)	\$ -	\$ 1,316,610
Appropriation of 2017 earnings (Note 21)								
Legal reserve	-	-	19,552	-	(19,552)	-	-	-
Special reserve	-	-	-	6,212	(6,212)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(161,557)	-	-	(161,557)
Net profit for the year ended December 31, 2018	-	-	-	-	215,603	-	-	215,603
Other comprehensive loss for the year ended December 31, 2018, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(108)</u>	<u>(3,677)</u>	<u>-</u>	<u>(3,785)</u>
Total comprehensive income for the year ended December 31, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>215,495</u>	<u>(3,677)</u>	<u>-</u>	<u>211,818</u>
Buy-back of ordinary shares (Note 21)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,973)</u>	<u>(36,973)</u>
BALANCE AT DECEMBER 31, 2018	403,892	319,889	180,576	25,871	466,191	(29,548)	(36,973)	1,329,898
Appropriation of 2018 earnings (Note 21)								
Legal reserve	-	-	21,560	-	(21,560)	-	-	-
Special reserve	-	-	-	3,677	(3,677)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(159,557)	-	-	(159,557)
Share dividends distributed by the Company	19,945	-	-	-	(19,945)	-	-	-
Net profit for the year ended December 31, 2019	-	-	-	-	214,009	-	-	214,009
Other comprehensive loss for the year ended December 31, 2019, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103</u>	<u>(22,940)</u>	<u>-</u>	<u>(22,837)</u>
Total comprehensive income for the year ended December 31, 2019	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,112</u>	<u>(22,940)</u>	<u>-</u>	<u>191,172</u>
BALANCE AT DECEMBER 31, 2019	<u>\$ 423,837</u>	<u>\$ 319,889</u>	<u>\$ 202,136</u>	<u>\$ 29,548</u>	<u>\$ 475,564</u>	<u>\$ (52,488)</u>	<u>\$ (36,973)</u>	<u>\$ 1,361,513</u>

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

FINETEK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 260,604	\$ 272,451
Adjustments for:		
Depreciation expenses	23,091	22,539
Amortization expenses	7,093	8,196
Expected credit loss reversed on trade receivables	(2,439)	(394)
Net gain on fair value changes of financial asset designated as at fair value through profit or loss	(4,410)	-
Finance costs	460	21
Interest income	(2,813)	(3,271)
Dividend income	(372)	-
Share of profit of subsidiaries, associates and joint ventures	(74,515)	(70,095)
Gain on disposal of property, plant and equipment	(589)	(220)
Write-downs of non-financial assets	6,827	9,869
Unrealized gain on transactions with subsidiaries, associates and joint ventures	15,802	24,545
Realized gain on transactions with subsidiaries, associates and joint ventures	(24,545)	(16,380)
Net loss (gain) on foreign currency exchange	5,960	(4,221)
Changes in operating assets and liabilities		
Financial assets mandatorily classified as at fair value through profit or loss	(8,866)	1,286
Notes receivable	2,529	3,855
Trade receivables	(11,333)	(68)
Trade receivables from related parties	12,864	8,863
Other receivables	598	(603)
Inventories	13,173	(12,500)
Other current assets	(614)	2,158
Other non-current assets	(301)	(226)
Contract liabilities	(50)	7,443
Notes payable	(1,119)	(317)
Trade payables	(30)	(6,254)
Trade payables to related parties	(100)	1,482
Other payables	2,000	4,838
Other current liabilities	(136)	489
Cash generated from operations	218,769	253,486
Interest received	2,607	3,158
Dividends received	372	-
Dividends received from subsidiaries (Note 12)	45,889	-
Interest paid	(460)	(21)
Income tax paid	(54,122)	(34,124)
Net cash generated from operating activities	213,055	222,499

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FINETEK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	\$ (15,000)	\$ -
Acquisition of subsidiaries	-	(38,998)
Payments for property, plant and equipment	(8,382)	(8,359)
Proceeds from disposal of property, plant and equipment	1,240	834
Increase in refundable deposits	(580)	(2,932)
Increase in other receivables from related parties	(2,731)	-
Decrease in other receivables from related parties	-	56
Payments for intangible assets	(4,007)	(6,924)
Decrease in other financial assets	8,754	44,454
Increase in prepayments for equipment	<u>(2,559)</u>	<u>(304)</u>
Net cash used in investing activities	<u>(23,265)</u>	<u>(12,173)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	65,000	-
Repayments of long-term borrowings	-	(15,000)
Repayment of the principal portion of lease liabilities	(232)	-
Dividends paid to owners of the Company	(159,557)	(161,557)
Payment for buy-back of ordinary shares	-	(36,973)
Acquisition of subsidiaries (Note 12)	(131,985)	-
Cash capital reduction of subsidiaries (Note 12)	<u>58,059</u>	<u>-</u>
Net cash used in financing activities	<u>(168,715)</u>	<u>(213,530)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(4,773)</u>	<u>3,458</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,302	254
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>225,678</u>	<u>225,424</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 241,980</u>	<u>\$ 225,678</u>

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

(Concluded)

FINETEK CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

FineTek Co., Ltd. (the “Company”) was incorporated in the Republic of China (“ROC”) on January 30, 2003. The Company mainly designs, manufactures and sells transmitters, point switches and electronic terminals.

The Company’s shares have been listed on the mainboard of the Taipei Exchange (“TPEX”) since November 2014.

The financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 20, 2020.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC) and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Company’s accounting policies:

1) IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Company elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the statements of cash flows.

The Company elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Company applies IAS 36 to all right-of-use assets for impairment.

The Company also applies the following practical expedients:

- a) The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Company uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 1.20%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 564
Less: Recognition exemption for short-term leases	<u>(384)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 180</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 179</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 179</u>

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Other current assets	\$ 1,406	\$ (708)	\$ 698
Right-of-use assets	-	<u>887</u>	887
Total effect on assets		<u>\$ 179</u>	
Lease liabilities - current	-	<u>\$ 179</u>	179
Total effect on liabilities		<u>\$ 179</u>	

- b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

Note 1: The Company shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

Amendments to IAS 1 and IAS 8 “Definition of Material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company assesses that the application of other standards and interpretations will not have any material impact on its financial position and financial performance.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Company shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Company will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Company must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Company’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Company’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

- a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

- b. Basis of preparation

The financial statements have been prepared on the historical cost basis, except for financial instruments which are measured at fair value and net defined benefit assets which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures, and related equity items, as appropriate, in these parent company only financial statements.

c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from the settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. (i.e., not retranslated)

For the purpose of presenting these financial statements, the functional currency of the Company and the Group entities (including subsidiaries in other countries or those that use currencies different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Inventories

Inventories, which consist of raw materials, finished goods, work in progress and merchandise are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

f. Investments in subsidiaries

The Company uses the equity method to account for its investments in subsidiaries.

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary. The Company also recognizes the changes in the Company's share of the equity of subsidiaries.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are accounted for as equity transactions. The Company recognizes directly in equity any difference between the carrying amount of an investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses, if any.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investments for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes the reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company only financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company only financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

g. Property, plant and equipment

Property, plant and equipment are initially stated at cost and subsequently stated at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating units to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. The reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL and financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such financial assets are recognized in other income; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 28.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes receivable, trade receivables, trade receivables from related parties, other receivables, other receivables from related parties (excluding tax refund receivable), other financial assets - current, financial assets at amortized - non-current and refundable deposits are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit impaired financial assets, for which interest income is calculated by applying the credit adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

- i) Significant financial difficulty of the issuer or the borrower;
- ii) Breach of contract, such as a default;
- iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including notes receivable, trade receivables, other receivables, other financial assets - current, financial assets at amortized cost - non-current and refundable deposits).

The Company always recognizes lifetime expected credit losses (i.e. ECLs) for notes receivable and trade receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

- i. Internal or external information show that the debtor is unlikely to pay its creditors.
- ii. When a financial asset is more than 360 days past due unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

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

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

k. Revenue recognition

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of transmitters, point switches and electronic terminals. Sales of transmitters, point switches and electronic terminals are recognized as revenue when the goods are delivered to the customer's specific location/the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. The transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

The Company does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from providing product repair services to customers.

As the Company provides product repair services, customers simultaneously receive and consume the benefits provided by the Company's satisfaction of performance obligations. Consequently, the related revenue is recognized when services are rendered.

l. Lease

2019

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease.

The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the balance sheets.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

m. Borrowing costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

n. Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the period in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to a defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service costs, including current service costs, and net interest on the net defined benefit liability (asset) are recognized as employee benefits expenses in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plan or reductions in future contributions to the plan.

p. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for as income tax in the year the shareholders approve the retention of earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any previously unrecognized deferred tax assets are also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period in which the liabilities are settled or the assets are realized, based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences of the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

Estimated impairment of financial assets

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 1,585	\$ 675
Checking accounts	5	2
Demand deposits	107,793	107,640
Cash equivalents (investments with original maturities within 3 months)		
Time deposits	<u>132,597</u>	<u>117,361</u>
	<u>\$ 241,980</u>	<u>\$ 225,678</u>

The market rate ranges of bank deposits at the end of the reporting period were as follows:

	December 31	
	2019	2018
Bank demand deposits and time deposits	0.010%-2.70%	0.001%-4.00%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Domestic listed shares	<u>\$ 13,276</u>	<u>\$ -</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31	
	2019	2018
<u>Non-current</u>		
Investments in equity instruments		
Unlisted shares - ordinary shares		
Ultracker Technology Co., Ltd.	<u>\$ 15,000</u>	<u>\$ -</u>

These investments in equity instruments are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes.

In December 2019, the Company acquired 1,250 thousand ordinary shares of Ultracker Technology Co., Ltd. which amounted to \$15,000 thousand for medium to long-term strategic purposes; the management designated these investments as at FVTOCI.

9. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	2018
<u>Non-current</u>		
Foreign investment		
Corporate bonds - Deutsche Bank	\$ 6,005	\$ 6,153
Corporate bonds - Société Générale	<u>5,990</u>	<u>6,136</u>
	<u>\$ 11,995</u>	<u>\$ 12,289</u>

- a. The Company's investments in bonds issued by Deutsche Bank were as follows:

	December 31	
	2019	2018
Total book value	<u>\$ 6,005</u>	<u>\$ 6,153</u>
Total par value (in thousands of U.S. dollars)	<u>\$ 200</u>	<u>\$ 200</u>
Coupon rate	4.50%	4.50%
Effective interest rate	4.47%	4.47%
Holding period	2015.10.21 - 2025.04.01	2015.10.21 - 2025.04.01

- b. The Company's investments in bonds issued by Société Générale were as follows:

	December 31	
	2019	2018
Total book value	<u>\$ 5,990</u>	<u>\$ 6,136</u>
Total par value (in thousands of U.S. dollars)	<u>\$ 200</u>	<u>\$ 200</u>
Coupon rate	4.25%	4.25%
Effective interest rate	4.27%	4.27%
Holding period	2015.10.21 - 2025.04.14	2015.10.21 - 2025.04.14

The Company only invests in debt instruments that are rated the equivalent of investment grade or higher and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Company's exposure and the external credit ratings are continuously monitored. The Company reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date. As of December 31, 2019 and 2018, the Company assessed that there is no need to recognize expected credit losses on debt investments.

10. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2019	2018
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ 17,403	\$ 19,932
Less: Allowance for impairment loss	<u>-</u>	<u>-</u>
	<u>\$ 17,403</u>	<u>\$ 19,932</u>
Notes receivable - operating	<u>\$ 17,403</u>	<u>\$ 19,932</u>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 74,585	\$ 65,070
Less: Allowance for impairment loss	<u>(672)</u>	<u>(4,037)</u>
	<u>\$ 73,913</u>	<u>\$ 61,033</u>
<u>Other receivables</u>		
Interest receivables	\$ 568	\$ 366
Tax refundable receivable	-	603
Others	<u>8</u>	<u>-</u>
	<u>\$ 576</u>	<u>\$ 969</u>
<u>Overdue receivables</u>		
At amortized cost		
Gross carrying amount	\$ 1,393	\$ 495
Less: Allowance for impairment loss	<u>(1,393)</u>	<u>(495)</u>
	<u>\$ -</u>	<u>\$ -</u>

a. Notes receivable

The Company's average cashing period of notes receivable was 0-180 days.

The Company measures the loss allowance for notes receivable at an amount equal to lifetime ECLs. The lifetime expected credit losses on notes receivable takes into consideration the past default experience of the debtor and general economic conditions of the industry. As of December 31, 2019 and 2018, the Company assessed that there is no need to recognize expected credit losses on notes receivable.

The aging of notes receivable was as follows:

	December 31	
	2019	2018
Up to 90 days	\$ 17,403	\$ 19,502
91 to 180 days	<u>-</u>	<u>430</u>
	<u>\$ 17,403</u>	<u>\$ 19,932</u>

The above aging schedule was based on the number of past due days from the invoice date.

b. Trade receivables

The average credit period of sales of goods was 30-120 days.

In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk was significantly reduced.

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. The expected credit losses on trade receivables are estimated using a provision matrix by reference to the past default experience of the debtor and an analysis of the debtor's current financial position. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Company's different customer base.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables (including overdue receivables) based on the Company's provision matrix.

December 31, 2019

	Not Past Due	Up to 90 Days	91 to 180 Days	181 to 270 Days	271 to 360 Days	Over 360 Days	Total
Expected credit loss rate	0.08%	1.43%	14.98%	33.04%	73.15%	100%	
Gross carrying amount	\$ 62,999	\$ 10,139	\$ 661	\$ 569	\$ 108	\$ 1,502	\$ 75,978
Loss allowance (Lifetime ECL)	<u>(52)</u>	<u>(145)</u>	<u>(99)</u>	<u>(188)</u>	<u>(79)</u>	<u>(1,502)</u>	<u>(2,065)</u>
Amortized cost	<u>\$ 62,947</u>	<u>\$ 9,994</u>	<u>\$ 562</u>	<u>\$ 381</u>	<u>\$ 29</u>	<u>\$ -</u>	<u>\$ 73,913</u>

December 31, 2018

	Not Past Due	Up to 90 Days	91 to 180 Days	181 to 270 Days	271 to 360 Days	Over 360 Days	Total
Expected credit loss rate	1.98%	8.98%	28.01%	50.60%	86.81%	100%	
Gross carrying amount	\$ 53,875	\$ 8,451	\$ 664	\$ 83	\$ 91	\$ 2,401	\$ 65,565
Loss allowance (Lifetime ECL)	<u>(1,065)</u>	<u>(759)</u>	<u>(186)</u>	<u>(42)</u>	<u>(79)</u>	<u>(2,401)</u>	<u>(4,532)</u>
Amortized cost	<u>\$ 52,810</u>	<u>\$ 7,692</u>	<u>\$ 478</u>	<u>\$ 41</u>	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 61,033</u>

The movements of the loss allowance of trade receivables (including overdue receivables) were as follows:

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 4,532	\$ 5,984
Less: Amounts written off	(28)	(1,058)
Less: Net remeasurement of loss allowance	<u>(2,439)</u>	<u>(394)</u>
Balance at December 31	<u>\$ 2,065</u>	<u>\$ 4,532</u>

c. Other receivables

Other receivables mainly consist of interest receivables and tax refund receivables, and the Group's policy is to transact only with creditworthy companies. The Company continuously monitors and makes reference to the past default experience of counterparties and analyzes their current financial position in order to evaluate whether there has been a significant increase in the credit risk of other receivables since initial recognition and to measure the expected credit loss. As of December 31, 2019, the Company assessed that there is no need to recognize expected credit loss on other receivables.

11. INVENTORIES

	December 31	
	2019	2018
Merchandise inventory	\$ 327	\$ 456
Finished goods	87,467	98,805
Work in progress	12,362	13,530
Raw materials	<u>29,789</u>	<u>37,154</u>
	<u>\$ 129,945</u>	<u>\$ 149,945</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$353,581 thousand and \$368,293 thousand, respectively. The cost of goods sold included inventory write-downs of \$6,827 thousand and \$9,869 thousand, respectively.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Subsidiaries

	December 31	
	2019	2018
Powerline Corp. (SAMOA) (Note 1)	\$ 430,493	\$ 434,973
Golden Land International Corp. (SAMOA)	55,997	46,910
Gain Access Investments Ltd. (Note 2)	55,475	112,934
PT. Finetek Automation Indonesia (Note 3)	38,449	38,315
Finetek GmbH (Note 4)	<u>135,338</u>	<u>-</u>
	<u>\$ 715,752</u>	<u>\$ 633,132</u>

	Proportion of Ownership and Voting Rights	
	December 31, 2019	December 31, 2018
Powerline Corp. (SAMOA)	100.00%	100.00%
Golden Land International Corp. (SAMOA)	100.00%	100.00%
Gain Access Investments Ltd.	100.00%	100.00%
PT. Finetek Automation Indonesia	99.65%	99.65%
Finetek GmbH	100.00%	-

Note 1: In December 2019, Powerline Corp.'s board of directors decided to distribute earnings of RMB10,699 thousand (NT\$45,889 thousand) to the Company.

Note 2: In September 2019, Gain Access Investments Ltd.'s board of directors decided to reduce capital in cash of US\$1,875 thousand (NT\$58,059 thousand).

Note 3: In December 2017, the Company's board of directors decided to invest in PT. Finetek Automation Indonesia. During the year 2019, the Company invested US\$109 thousand (NT\$3,330 thousand). As of December 31, 2019, the Company invested the amount of US\$1,396 thousand (NT\$42,328 thousand).

Note 4: On May 10, 2019, the Company's board of directors decided to undergo a reorganization of the Group's structure, and purchased 90% and 10% of Finetek GmbH from its subsidiary Gain Access Investments Ltd. and its second-tier subsidiary Faco International Co., Ltd. with US\$3,716 thousand and US\$413 thousand (NT\$115,786 thousand and NT\$12,869 thousand), respectively; and the transaction was completed on May 14, 2019. After reorganization of the Group structure, Finetek GmbH became a wholly-owned subsidiary of the Company.

Refer to Note 34 for the details of the subsidiaries indirectly held by the Company.

The investments in subsidiaries accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2019 and 2018 were based on the subsidiaries' financial statements which have been audited for the same years.

13. PROPERTY, PLANT AND EQUIPMENT

Assets used by the Company

	Freehold Land	Buildings	Machinery and Equipment	Transportation	Office Equipment	Molding Equipment	Other Equipment	Total
<u>Cost</u>								
Balance at January 1, 2018	\$ 142,039	\$ 202,006	\$ 49,113	\$ 11,683	\$ 6,914	\$ 16,749	\$ 30,368	\$ 458,872
Additions	-	193	4,271	-	201	1,735	1,089	7,489
Disposals	-	-	(1,118)	(474)	(78)	(357)	(255)	(2,282)
Reclassified (Note)	-	3,161	(3,342)	-	(1,297)	-	2,237	759
Balance at December 31, 2018	\$ 142,039	\$ 205,360	\$ 48,924	\$ 11,209	\$ 5,740	\$ 18,127	\$ 33,439	\$ 464,838
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2018	\$ -	\$ 42,225	\$ 24,309	\$ 8,705	\$ 4,851	\$ 14,230	\$ 24,665	\$ 118,985
Disposals	-	-	(835)	(470)	(78)	(30)	(255)	(1,668)
Depreciation expenses	-	7,347	8,406	1,158	1,087	2,162	2,379	22,539
Reclassified	-	2,009	(1,301)	-	(1,206)	-	498	-
Balance at December 31, 2018	\$ -	\$ 51,581	\$ 30,579	\$ 9,393	\$ 4,654	\$ 16,362	\$ 27,287	\$ 139,856
Carrying amounts at December 31, 2018	\$ 142,039	\$ 153,779	\$ 18,345	\$ 1,816	\$ 1,086	\$ 1,765	\$ 6,152	\$ 324,982

(Continued)

	Freehold Land	Buildings	Machinery and Equipment	Transportation	Office Equipment	Molding Equipment	Other Equipment	Total
<u>Cost</u>								
Balance at January 1, 2019	\$ 142,039	\$ 205,360	\$ 48,924	\$ 11,209	\$ 5,740	\$ 18,127	\$ 33,439	\$ 464,838
Additions	-	2,855	1,202	609	475	2,676	373	8,190
Disposals	-	-	(481)	(537)	(10)	(623)	(25)	(1,676)
Reclassified (Note)	-	-	-	-	-	145	174	319
Balance at December 31, 2019	<u>\$ 142,039</u>	<u>\$ 208,215</u>	<u>\$ 49,645</u>	<u>\$ 11,281</u>	<u>\$ 6,205</u>	<u>\$ 20,325</u>	<u>\$ 33,961</u>	<u>\$ 471,671</u>
<u>Accumulated depreciation and impairment</u>								
Balance at January 1, 2019	\$ -	\$ 51,581	\$ 30,579	\$ 9,393	\$ 4,654	\$ 16,362	\$ 27,287	\$ 139,856
Disposals	-	-	(445)	(499)	(10)	(46)	(25)	(1,025)
Depreciation expenses	-	6,893	8,432	509	811	2,121	3,384	22,150
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ 58,474</u>	<u>\$ 38,566</u>	<u>\$ 9,403</u>	<u>\$ 5,455</u>	<u>\$ 18,437</u>	<u>\$ 30,646</u>	<u>\$ 160,981</u>
Carrying amounts at December 31, 2019	<u>\$ 142,039</u>	<u>\$ 149,741</u>	<u>\$ 11,079</u>	<u>\$ 1,878</u>	<u>\$ 750</u>	<u>\$ 1,888</u>	<u>\$ 3,315</u>	<u>\$ 310,690</u>

(Concluded)

Note: Transferred from prepayments for equipment.

For the years ended December 31, 2019 and 2018, no impairment assessment was performed as there were no indications of impairment.

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	
Main buildings	35 years
Auxiliary equipment	2-10 years
Machinery and equipment	1-10 years
Transportation	4-5 years
Office equipment	1-5 years
Molding equipment	1-4 years
Other equipment	1-8 years

14. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Transportation	<u>\$ 333</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 387</u>
Depreciation charge for right-of-use assets	
Buildings	\$ 179
Transportation	<u>762</u>
	<u>\$ 941</u>

b. Lease liabilities - 2019

**December 31,
2019**

Carrying amounts

Current	\$ 128
Non-current	\$ 206

Range of discount rate for lease liabilities was as follows:

**December 31,
2019**

Transportation	1.21%
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c. Material lease-in activities and terms

The Company leases buildings and transportation equipment with lease terms of 1 to 3 years. These arrangements do not contain renewal or purchase options.

d. Other lease information

2019

**For the Year
Ended
December 31,
2019**

Expenses relating to short-term leases	\$ 824
Total cash outflow for leases	\$ (1,059)

The Company leases certain offices under leases which qualify as short-term leases. The Company has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

For the year ended December 31, 2019, expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied was \$416 thousand as of December 31, 2019.

All lease commitments (the Company as a lessee) with lease terms commencing after the balance sheet dates are as follows:

**December 31,
2019**

Lease commitments	\$ 1,062
-------------------	----------

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	\$ <u>564</u>

All lease commitments (the Company as a lessee) with lease terms commencing after the balance sheet dates are as follows:

	December 31, 2018
Lease commitments	\$ <u>312</u>

15. OTHER INTANGIBLE ASSETS

	Computer Software	Licenses and Franchises	Total
<u>Cost</u>			
Balance at January 1, 2018	\$ 33,008	\$ 750	\$ 33,758
Additions	6,924	-	6,924
Disposals	<u>(165)</u>	<u>-</u>	<u>(165)</u>
Balance at December 31, 2018	<u>\$ 39,767</u>	<u>\$ 750</u>	<u>\$ 40,517</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2018	\$ 12,745	\$ 86	\$ 12,831
Amortization expenses	8,172	24	8,196
Disposals	<u>(165)</u>	<u>-</u>	<u>(165)</u>
Balance at December 31, 2018	<u>\$ 20,752</u>	<u>\$ 110</u>	<u>\$ 20,862</u>
Carrying amounts at December 31, 2018	<u>\$ 19,015</u>	<u>\$ 640</u>	<u>\$ 19,655</u>
<u>Cost</u>			
Balance at January 1, 2019	\$ 39,767	\$ 750	\$ 40,517
Additions	4,007	-	4,007
Disposals	<u>(1,760)</u>	<u>-</u>	<u>(1,760)</u>
Balance at December 31, 2019	<u>\$ 42,014</u>	<u>\$ 750</u>	<u>\$ 42,764</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2019	\$ 20,752	\$ 110	\$ 20,862
Amortization expenses	7,067	26	7,093
Disposals	<u>(1,760)</u>	<u>-</u>	<u>(1,760)</u>
Balance at December 31, 2019	<u>\$ 26,059</u>	<u>\$ 136</u>	<u>\$ 26,195</u>
Carrying amounts at December 31, 2019	<u>\$ 15,955</u>	<u>\$ 614</u>	<u>\$ 16,569</u>

Other intangible assets were amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	1-10 years
Licenses and franchises	29 years

An analysis of amortization by function:

	For the Year Ended December 31	
	2019	2018
Operating costs	\$ 1,221	\$ 1,410
Selling and marketing expenses	4,258	4,572
General and administrative expenses	499	694
Research and development expenses	<u>1,115</u>	<u>1,520</u>
	<u>\$ 7,093</u>	<u>\$ 8,196</u>

16. OTHER ASSETS

	December 31	
	2019	2018
<u>Current</u>		
Prepayments	\$ 1,030	\$ 1,406
Payments for others	<u>282</u>	<u>-</u>
	<u>\$ 1,312</u>	<u>\$ 1,406</u>
Other financial assets - current (Note 30) (Note)	<u>\$ 2,700</u>	<u>\$ 11,454</u>
<u>Non-current</u>		
Prepayments for equipment	\$ 2,559	\$ 319
Refundable deposits (Note)	4,807	4,227
Net defined benefit assets (Note 20)	995	565
Overdue receivables (Note 10)	<u>-</u>	<u>-</u>
	<u>\$ 8,361</u>	<u>\$ 5,111</u>

Note: The Company considers the past default experience of the debtor and an analysis of the debtor's current financial position to measure 12-month or lifetime expected credit losses on other financial assets and refundable deposits. As of December 31, 2019 and 2018, the Company assessed that there was no need to recognize expected credit loss on other financial assets and refundable deposits.

17. BORROWINGS

Short-term Borrowings

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Unsecured borrowings</u>		
Line of credit borrowings (Note)	\$ <u>65,000</u>	\$ <u>-</u>

Note: The interest rate on the line of credit borrowings was 1.20%-1.21% per annum as of December 31, 2019.

18. NOTES PAYABLE AND TRADE PAYABLES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Notes payable</u>		
Operating	\$ <u>5,341</u>	\$ <u>6,460</u>
<u>Trade payables</u>		
Operating	\$ <u>37,228</u>	\$ <u>37,258</u>

The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

19. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Other payables		
Payables for salaries and bonuses	\$ 30,873	\$ 30,895
Payables for employee compensation	9,000	9,000
Payables for remuneration of directors and supervisors	8,000	4,320
Payables for insurance	3,463	3,439
Payables for retirement	1,876	1,906
Payables for annual leave	366	292
Payables for purchases of equipment (Note 26)	76	268
Payables for professional service fees	792	1,539
Others	<u>6,107</u>	<u>7,086</u>
	\$ <u>60,553</u>	\$ <u>58,745</u>
Other liabilities		
Receipts under custody	\$ <u>491</u>	\$ <u>627</u>

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Company adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheet in respect of the Company’s defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 5,259	\$ 5,014
Fair value of plan assets	<u>(6,254)</u>	<u>(5,579)</u>
Net defined benefit assets	<u>\$ (995)</u>	<u>\$ (565)</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	\$ 4,490	\$ (5,360)	\$ (870)
Service costs			
Current service costs	87	-	87
Net interest expense (income)	<u>61</u>	<u>(73)</u>	<u>(12)</u>
Recognized in profit or loss	<u>148</u>	<u>(73)</u>	<u>75</u>
Remeasurement			
Return on plan assets	-	(146)	(146)
Actuarial loss - changes in financial assumption	69	-	69
Actuarial loss - experience adjustments	<u>307</u>	<u>-</u>	<u>307</u>
Recognized in other comprehensive income	<u>376</u>	<u>(146)</u>	<u>230</u>
Balance at December 31, 2018	<u>5,014</u>	<u>(5,579)</u>	<u>(565)</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Service costs			
Current service costs	\$ 126	\$ -	\$ 126
Net interest expense (income)	<u>63</u>	<u>(70)</u>	<u>(7)</u>
Recognized in profit or loss	<u>189</u>	<u>(70)</u>	<u>119</u>
Remeasurement			
Return on plan assets	-	(185)	(185)
Actuarial loss - changes in financial assumption	<u>56</u>	<u>-</u>	<u>56</u>
Recognized in other comprehensive income	<u>56</u>	<u>(185)</u>	<u>(129)</u>
Contributions from the employer	<u>-</u>	<u>(420)</u>	<u>(420)</u>
Balance at December 31, 2019	<u>\$ 5,259</u>	<u>\$ (6,254)</u>	<u>\$ (995)</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plan is as follows:

	For the Year Ended December 31	
	2019	2018
Operating costs	\$ -	\$ -
General and administrative expenses	<u>119</u>	<u>75</u>
	<u>\$ 119</u>	<u>\$ 75</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in both domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government and corporate bond interest rates will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rate(s)	1.00%	1.25%
Expected rate(s) of salary increase	2.75%	2.75%

If possible reasonable changes in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2019	2018
Discount rate(s)		
0.25% increase	\$ (156)	\$ (169)
0.25% decrease	\$ 173	\$ 177
Expected rate(s) of salary increase		
1% increase	\$ 719	\$ 739
1% decrease	\$ (614)	\$ (632)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2019	2018
The expected contributions to the plan for the next year	\$ 480	\$ -
The average duration of the defined benefit obligation	14 years	14 years

21. EQUITY

a. Share capital

Ordinary shares

	December 31	
	2019	2018
Number of shares authorized (in thousands)	62,000	62,000
Shares authorized	\$ 620,000	\$ 620,000
Number of shares issued and fully paid (in thousands)	42,384	40,389
Shares issued	\$ 423,837	\$ 403,892

In the shareholders' meeting on June 10, 2019, the Company's shareholders approved the transfer of retained earnings of \$19,945 thousand to issue 1,994,461 new shares with a par value of NT\$10. The above transaction was approved by the FSC on July 29, 2019, and the subscription base date September 3, 2019 was determined on August 12, 2019 by the Company's board of directors.

b. Capital surplus

	December 31	
	2019	2018
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note)</u>		
Premium from issuance of ordinary shares	\$ 316,818	\$ 316,818
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	34	34
<u>May be used to offset a deficit only</u>		
Arising from invalid employee share options	<u>3,037</u>	<u>3,037</u>
	<u>\$ 319,889</u>	<u>\$ 319,889</u>

Note: Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and to once a year).

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the amended Articles, where the Company made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors, refer to compensation and remuneration of directors and supervisors in Note 23 (f).

In accordance with the amendments to the Company Act, the distribution of dividends may be made by way of cash dividends or share dividends, where the ratio of the cash dividends shall not be less than 10% of the total shareholders' dividends.

10% of the retained earnings after tax should be appropriated as a legal reserve until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset any deficits. If the Company has no deficit and the legal reserve exceeds 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" shall be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for the 2018 and 2017 which were approved in the shareholders' meetings on June 10, 2019 and June 19, 2018, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2018	2017	2018	2017
Legal reserve	\$ 21,560	\$ 19,552	\$ -	\$ -
Special reserve	3,677	6,212	-	-
Cash dividends	159,557	161,557	4.0	4.0
Share dividends	19,945	-	0.5	-

The appropriation of earnings for 2019 had been proposed by the Company's board of directors on March 20, 2020. The appropriation and dividends per share were as follows:

	Appropriations of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 21,411	\$ -
Special reserve	22,940	-
Cash dividends	167,535	4.0

The appropriation of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 15, 2020.

d. Special reserve

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 25,871	\$ 19,659
Appropriation in respect of:		
Reversal of debit to other equity items	<u>3,677</u>	<u>6,212</u>
Balance at December 31	<u>\$ 29,548</u>	<u>\$ 25,871</u>

e. Other equity items

Exchange differences on translating the financial statements for foreign operations

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ (29,548)	\$ (25,871)
Effect of change in tax rate	-	488
Recognized for the year		
Exchange differences on translating foreign operations	(28,675)	(5,207)
Income tax related to exchange differences arising on translation to the presentation currency	<u>5,735</u>	<u>1,042</u>
Balance at December 31	<u>\$ (52,488)</u>	<u>\$ (29,548)</u>

f. Treasury shares

Purpose of Buy-back	Shares Transferred to Employees (In Thousands of Shares)
Number of shares at January 1, 2019	<u>500</u>
Number of shares at December 31, 2019	<u>500</u>
Number of shares at January 1, 2018	-
Increase during the year	<u>500</u>
Number of shares at December 31, 2018	<u>500</u>

For the purpose of transferring shares to employees, the Company bought back approximately 500 thousand shares from the open market amounting to \$36,973 thousand.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to dividends and to vote.

22. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from sale of goods	\$ 714,090	\$ 749,365
Revenue from rendering of services	<u>2,309</u>	<u>1,647</u>
	<u>\$ 716,399</u>	<u>\$ 751,012</u>

a. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Notes receivable (Note 10)	\$ 17,403	\$ 19,932	\$ 23,787
Trade receivables (Note 10)	73,913	61,033	59,889
Trade receivables from related parties (Note 29)	<u>39,559</u>	<u>52,423</u>	<u>61,286</u>
	<u>\$ 130,875</u>	<u>\$ 133,388</u>	<u>\$ 144,962</u>
Contract liabilities - current			
Sales of goods	<u>\$ 9,924</u>	<u>\$ 9,974</u>	<u>\$ 2,531</u>

The changes in the balance of contract liabilities primarily resulted from the timing difference between the Company's satisfaction of performance obligations and the respective customer's payment.

Revenue recognized in the current year that was included in the contract liability balance at the beginning of the year and from the performance obligations satisfied in the previous periods is as follows:

	For the Year Ended December 31	
	2019	2018
<u>From contract liabilities at the start of the year</u>		
Sale of goods	\$ <u>9,222</u>	\$ <u>1,787</u>

b. Disaggregation of revenue

	For the Year Ended December 31	
	2019	2018
<u>Product categories</u>		
Process automated sensor development	\$ 571,180	\$ 590,681
Pneumatic control system	65,541	69,874
Other	<u>79,678</u>	<u>90,457</u>
	<u>\$ 716,399</u>	<u>\$ 751,012</u>

23. NET PROFIT FROM CONTINUING OPERATIONS

a. Other income

	For the Year Ended December 31	
	2019	2018
Interest income	\$ 2,813	\$ 3,271
Dividends	372	-
Government grant income	4,020	12,063
Others	<u>1,412</u>	<u>678</u>
	<u>\$ 8,617</u>	<u>\$ 16,012</u>

b. Other gains and (losses)

	For the Year Ended December 31	
	2019	2018
Gain on disposal of property, plant and equipment	\$ 589	\$ 220
Net foreign exchange (losses) gains	(6,529)	1,023
Fair value changes of financial assets		
Financial assets mandatorily classified as at FVTPL	4,410	-
Receipts of payments under custody	6,136	5,807
Others	<u>(69)</u>	<u>(43)</u>
	<u>\$ 4,537</u>	<u>\$ 7,007</u>

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on loans	\$ 457	\$ 21
Interest on lease liabilities	<u>3</u>	<u>-</u>
	<u>\$ 460</u>	<u>\$ 21</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating costs	\$ 18,671	\$ 17,960
Operating expenses	<u>4,420</u>	<u>4,579</u>
	<u>\$ 23,091</u>	<u>\$ 22,539</u>
An analysis of amortization by function		
Operating costs	\$ 1,221	\$ 1,410
Operating expenses	<u>5,872</u>	<u>6,786</u>
	<u>\$ 7,093</u>	<u>\$ 8,196</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits	\$ 164,891	\$ 162,229
Post-employment benefits		
Defined contribution plan	7,608	7,797
Defined benefit plans (Note 20)	119	75
Other employee benefits		
Labor and health insurance expense	16,400	16,094
Other employee benefits	<u>12,410</u>	<u>12,993</u>
Total employee benefits expense	<u>\$ 201,428</u>	<u>\$ 199,188</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 85,317	\$ 87,694
Operating expenses	<u>116,111</u>	<u>111,494</u>
	<u>\$ 201,428</u>	<u>\$ 199,188</u>

f. Employees' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at rates of no less than 3% and no higher than 3%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and the remuneration of directors and supervisors for the years ended December 31, 2019 and 2018, which were approved by the Company's board of directors on March 20, 2020 and March 15, 2019, respectively, are as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2019	2018
Employees' compensation	3.24%	3.15%
Remuneration of directors and supervisors (Note)	2.88%	1.51%

Amount

	<u>For the Year Ended December 31</u>			
	2019		2018	
	Cash	Shares	Cash	Shares
Employees' compensation	\$ 9,000	\$ -	\$ 9,000	\$ -
Remuneration of directors and supervisors (Note)	8,000	-	4,320	-

Note: In the shareholders' meeting on June 10, 2019, the Company's shareholders approved the substitution of the audit committee for supervisors.

If there is a change in the amounts after the annual financial statements are authorized for issue, the differences will be recorded as a change during the next accounting period.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

g. Gains or losses on foreign currency exchange

	<u>For the Year Ended December 31</u>	
	2019	2018
Foreign exchange gains	\$ 7,174	\$ 14,939
Foreign exchange losses	<u>(13,703)</u>	<u>(13,916)</u>
Net foreign exchange (losses) gains	<u>\$ (6,529)</u>	<u>\$ 1,023</u>

24. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of income tax expense were as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current period	\$ 45,732	\$ 43,255
Adjustments for prior years	(248)	(561)
Income tax on unappropriated earnings	<u>168</u>	<u>795</u>
	<u>45,652</u>	<u>43,489</u>
Deferred tax		
In respect of the current period	943	7,109
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>-</u>	<u>6,250</u>
	<u>943</u>	<u>13,359</u>
Income tax expense recognized in profit or loss	<u>\$ 46,595</u>	<u>\$ 56,848</u>

A reconciliation of the accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before tax from continuing operations	<u>\$ 260,604</u>	<u>\$ 272,451</u>
Income tax expense calculated at the statutory rate	\$ 52,120	\$ 54,490
Nondeductible expenses in determining taxable income	(739)	77
Tax-exempt income	(235)	2
Income tax on unappropriated earnings	168	795
Deferred tax effect of earnings of subsidiaries	(4,471)	(4,205)
Effect of tax rate change	-	6,250
Adjustments for prior years' tax	<u>(248)</u>	<u>(561)</u>
Income tax expense recognized in profit or loss	<u>\$ 46,595</u>	<u>\$ 56,848</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

In July 2019, the President of the ROC announced the amendments to the Statute for Industrial Innovation, which stipulate that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Company has already deducted the amount of capital expenditure from the unappropriated earnings in 2018 that was reinvested when calculating the tax on unappropriated earnings for the year ended December 2019.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
In respect of the current period		
Translation of foreign operations	\$ (5,735)	\$ (1,042)
Remeasurement of defined benefit plans	<u>26</u>	<u>(46)</u>
	<u>(5,709)</u>	<u>(1,088)</u>
Effect of change in tax rate		
Translation of foreign operations	-	(488)
Remeasurement of defined benefit plans	<u>-</u>	<u>(76)</u>
	<u>-</u>	<u>(564)</u>
Total income tax recognized in other comprehensive income	<u>\$ (5,709)</u>	<u>\$ (1,652)</u>

c. Current tax liabilities

	December 31	
	2019	2018
Current tax liabilities		
Income tax payable	<u>\$ 19,520</u>	<u>\$ 27,990</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Exchange differences on translating the financial statements of foreign operations	\$ 4,299	\$ -	\$ 5,735	\$ 10,034
Defined benefit plans	553	(60)	(26)	467
Unrealized gains on transactions with associates	4,909	(1,749)	-	3,160
Payables for annual leave	58	15	-	73
Allowance for impaired receivables	789	(483)	-	306
Unrealized losses on write-down of inventories	7,810	1,365	-	9,175
Others	<u>6</u>	<u>855</u>	<u>-</u>	<u>861</u>
	<u>\$ 18,424</u>	<u>\$ (57)</u>	<u>\$ 5,709</u>	<u>\$ 24,076</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 61,926	\$ 1,254	\$ -	\$ 63,180
Others	<u>421</u>	<u>(368)</u>	<u>-</u>	<u>53</u>
	<u>\$ 62,347</u>	<u>\$ 886</u>	<u>\$ -</u>	<u>\$ 63,233</u>
				(Concluded)

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Exchange differences on translating the financial statements of foreign operations	\$ 2,769	\$ -	\$ 1,530	\$ 4,299
Defined benefit plans	431	-	122	553
Unrealized gains on transactions with associates	2,785	2,124	-	4,909
Payables for annual leave	55	3	-	58
Allowance for impaired receivables	761	28	-	789
Unrealized losses on write-down of inventories	4,961	2,849	-	7,810
Others	<u>390</u>	<u>(384)</u>	<u>-</u>	<u>6</u>
	<u>\$ 12,152</u>	<u>\$ 4,620</u>	<u>\$ 1,652</u>	<u>\$ 18,424</u>

Deferred tax liabilities

Temporary differences				
Share of profit or loss of subsidiaries, associates and joint ventures accounted for using the equity method	\$ 44,296	\$ 17,630	\$ -	\$ 61,926
Others	<u>72</u>	<u>349</u>	<u>-</u>	<u>421</u>
	<u>\$ 44,368</u>	<u>\$ 17,979</u>	<u>\$ -</u>	<u>\$ 62,347</u>

- e. The aggregate amount of temporary differences associated with investments for which deferred tax liabilities have not been recognized

As of December 31, 2019 and 2018, the taxable temporary differences associated with investments in subsidiaries for which no deferred tax liabilities have been recognized were \$141,286 thousand and \$132,698 thousand, respectively.

f. Income tax assessments

The tax returns through 2017 have been assessed by the tax authorities. As of December 31, 2019, the Company has no unsettled lawsuit in relation to tax.

25. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	<u>\$ 5.11</u>	<u>\$ 5.10</u>
Diluted earnings per share	<u>\$ 5.09</u>	<u>\$ 5.08</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on September 3, 2019. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2018 are as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 5.35</u>	<u>\$ 5.10</u>
Diluted earnings per share	<u>\$ 5.33</u>	<u>\$ 5.08</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share are as follows:

	For the Year Ended December 31	
	2019	2018
Net profit for the year	<u>\$ 214,009</u>	<u>\$ 215,603</u>

Weighted average number of ordinary shares outstanding (in thousands of shares)

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	41,884	42,306
Effect of potentially dilutive ordinary shares:		
Employees' compensation or bonuses issued to employees	<u>123</u>	<u>138</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>42,007</u>	<u>42,444</u>

If the Company offered to settle compensation or bonuses paid to employees in cash or shares, the Company assumed the entire amount of the compensation or bonuses will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

26. CASH FLOW INFORMATION

a. Non-cash transactions

For the years ended December 31, 2019 and 2018, the Company entered into the following non-cash investing activities which were not reflected in the statements of cash flows:

As of December 31, 2019 and 2018, the unsettled payments for the acquisition of property, plant and equipment were \$76 thousand and \$268 thousand, respectively, which were recorded as other payables in the financial statements.

b. Changes in liabilities arising from financing activities

For the year ended December 31, 2019

	Opening Balance	Cash Flows	Non-cash Changes New Leases	Closing Balance
Short-term borrowings	\$ -	\$ 65,000	\$ -	\$ 65,000
Lease liabilities (Note 3)	<u>179</u>	<u>(232)</u>	<u>387</u>	<u>334</u>
	<u>\$ 179</u>	<u>\$ (64,768)</u>	<u>\$ 387</u>	<u>\$ 65,334</u>

For the year ended December 31, 2018

	Opening Balance	Cash Flows	Non-cash Changes Exchange Rate Impact	Closing Balance
Short-term borrowings	<u>\$ 15,000</u>	<u>\$ (15,000)</u>	<u>\$ -</u>	<u>\$ -</u>

27. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company (comprising issued capital, capital surplus, retained earnings, and other equity).

The Company is not subject to any externally imposed capital requirements.

Key management personnel of the Company review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Company may adjust the amount of new debt issued or existing debt redeemed.

28. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

December 31, 2019

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets at amortized cost					
Foreign corporate bonds	<u>\$ 11,995</u>	<u>\$ -</u>	<u>\$ 12,151</u>	<u>\$ -</u>	<u>\$ 12,151</u>

December 31, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
<u>Financial assets</u>					
Financial assets at amortized cost					
Foreign corporate bonds	<u>\$ 12,289</u>	<u>\$ -</u>	<u>\$ 12,713</u>	<u>\$ -</u>	<u>\$ 12,713</u>

The fair values of the financial assets and financial liabilities included in the Level 2 category above have been determined in accordance with the income approach based on a discounted cash flow analysis.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	<u>\$ 13,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,276</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2019

	Financial Assets at FVTOCI Equity Instruments
<u>Financial assets</u>	
Balance at January 1, 2019	\$ -
Purchases	<u>15,000</u>
Balance at December 31, 2019	<u>\$ 15,000</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of domestic unlisted equity securities were assessed using a combination of the market and income approaches. In the market approach, the price multipliers of other similar companies trading on the active market are used as reference for determination of the fair value. In the income approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees.

The significant unobservable inputs used are as follows:

The value of the investee evaluated by the market approach was relatively lower than that of the equity with control due to the lack of control ability, so 33.33% was listed as the basis for non-control reduction. In addition, the equity was considered to be less liquid in the securities market than the comparable company, so the liquidity discount was 25%.

c. Categories of financial instruments

	<u>December 31</u>	
	2019	2018
<u>Financial assets</u>		
FVTPL		
Mandatorily classified as at FVTPL	\$ 13,276	\$ -
Financial assets at FVTOCI	15,000	-
Financial assets at amortized cost (Note 1)	395,828	387,566
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (Note 2)	117,742	55,909

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, trade receivables, trade receivables from related parties, other receivables, others receivables from related parties (except for tax refund receivable), other financial assets - current, financial assets at amortized cost - non-current and refundable deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, notes payable, trade payables, trade payables to related parties, other payables (except for salaries and bonuses payable, employee compensation payable, remuneration of directors and supervisors payable, labor and health insurance payable, payable for annual leaves and payable for retirement.)

d. Financial risk management objectives and policies

The Company's major financial instruments include cash and cash equivalents, trade receivables, trade payables, borrowings and lease liabilities. The Company's financial department provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Company's financial department reports quarterly to the board of directors, an independent body that monitors risks and policies implemented to mitigate risk exposures.

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below), and other prices (see (c) below).

There had been no changes to the Company's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company to foreign currency risk.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities exposing the Company to foreign currency risk at the end of the reporting period are set out in Note 33.

Sensitivity analysis

The Company was mainly exposed to fluctuations in the USD and the RMB.

The following table details the Company's sensitivity to a 5% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 5%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated when the New Taiwan dollar weakens 5% against the relevant currency. For a 5% strengthening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be negative.

	USD Impact		RMB Impact	
	For the Year Ended December 31		For the Year Ended December 31	
	2019	2018	2019	2018
Profit or loss	\$ 6,659	\$ 4,030	\$ 4,429	\$ 4,246

The profit (loss) above was mainly attributable to the exposure on outstanding USD and RMB bank deposits, receivables and payables, which were not hedged at the end of the reporting period.

The Company's sensitivity to the USD increased during the current period mainly because of an increase in USD bank deposits.

b) Interest rate risk

The carrying amounts of the Company's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 147,292	\$ 141,104
Financial liabilities	334	-
Cash flow interest rate risk		
Financial assets	107,793	107,640
Financial liabilities	65,000	-

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming that the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% basis point higher/lower and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2019 and 2018 would increase/decrease by \$428 thousand and \$1,076 thousand, respectively, which would have been mainly attributable to the Company's exposure to interest rates on its floating-rate bank deposits and floating-rate bank loans.

The Company's sensitivity to interest rates decreased during the current year mainly due to the increase in variable-rate bank loans.

c) Other price risk

The Company was exposed to equity price risk through its investments in equity securities.

Sensitivity analysis

The sensitivity analysis below was determined based on the Company's exposure to equity price at the end of the reporting period.

If the equity price rises/falls by 1% and all other variables were held constant, the Company's pre-tax profit for the years ended December 31, 2019 and 2018 would increase/decrease by \$133 thousand and \$0 thousand, respectively. The Company's other comprehensive income for the years ended December 31, 2019 and 2018 would increase/decrease by \$150 thousand and \$0 thousand, respectively.

The Company's sensitivity to equity prices increased during the current year mainly due to the increase in financial assets at FVTPL and financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. As at the end of the reporting period, the Company's maximum exposure to credit risk, which would cause a financial loss to the Company due to a failure of counterparties to discharge an obligation, pertains to financial assets recognized in the balance sheets.

The Company adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company did not have significant credit risk for any single counterparty or any group of counterparties with similar characteristics.

The Company transacted with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

3) Liquidity risk

The Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Company relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Company had available unutilized bank loan facilities set out in (b) below.

a) Liquidity and interest rate risk tables for non-derivative financial liabilities

The following tables detail the Company's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The tables were drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are at floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Lease liabilities	\$ 11	\$ 22	\$ 99	\$ 208	\$ -
Variable interest rate liabilities	65,000	-	-	-	-
Non-interest bearing liabilities	<u>6,975</u>	<u>45,767</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 71,986</u>	<u>\$ 45,789</u>	<u>\$ 99</u>	<u>\$ 208</u>	<u>\$ -</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10-15 Years	15-20 Years	20+ Years
Lease liabilities	<u>\$ 132</u>	<u>\$ 208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	<u>\$ 8,893</u>	<u>\$ 47,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

b) Loan commitments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Unsecured loan commitments		
Amount used	\$ 65,000	\$ -
Amount unused	<u>185,000</u>	<u>200,000</u>
	<u>\$ 250,000</u>	<u>\$ 200,000</u>

29. TRANSACTIONS WITH RELATED PARTIES

Besides information disclosed elsewhere in the other notes, details of transactions between the Company and other related parties are disclosed below.

a. Related party name and category

Related Party Name	Relationship with the Company
Fine Automation Co., Ltd.	Subsidiary
Aplus Finetek Sensor Inc.	Subsidiary
Finetek Pte., Ltd.	Subsidiary
Finetek GmbH	Subsidiary
Mutec Instruments GmbH	Subsidiary
PT. Finetek Automation Indonesia	Subsidiary
MORN SUN FEED MILL CORP.	Related party in substance (the Chairman of the entity is the Chairman of the Company)
Yilan Wu Sha Culture Foundation	Related party in substance (the Chairman of the entity is the managing director of the Company)

b. Revenue

Line Item	Related Party Category/Name	For the Year Ended December 31	
		2019	2018
Sales revenue	Subsidiaries		
	Fine Automation Co., Ltd.	\$ 203,839	\$ 229,616
	Aplus Finetek Sensor Inc.	96,278	109,470
	Others	20,068	19,119
	Related party in substance	<u>544</u>	<u>897</u>
		<u>\$ 320,729</u>	<u>\$ 359,102</u>

The Company's selling prices for the sale of goods to related parties were negotiated with reference to the market prices in the respective regions, and that for non-related parties were determined based on the general market. In 2019, the credit period for the sale of goods to related parties and non-related parties was 90 days after the month-end closing and date of advance collection till 150 days after the month-end closing, respectively. In 2018, the credit period for the sale of goods to related parties and non-related parties was 90 days after the month-end closing and 30-120 days after the month-end closing, respectively.

On December 31, 2019 and 2018, the unrealized gains on transactions with subsidiaries were \$15,802 thousand and \$24,545 thousand, respectively. The realized gains on transactions with subsidiaries were \$24,545 thousand and \$16,380 thousand, respectively.

c. Purchases of goods

Related Party Category	For the Year Ended December 31	
	2019	2018
Subsidiaries	<u>\$ 11,006</u>	<u>\$ 15,965</u>

The Company's purchase prices from the related parties were based on the regional market prices or cost-plus pricing. The prices to third parties were based on negotiations. Purchase payment terms are the same as those for unrelated parties.

d. Receivables from related parties (excluding loans to related parties)

Line Item	Related Party Category/Name	December 31	
		2019	2018
Trade receivables	Subsidiaries		
	Fine Automation Co., Ltd.	\$ 24,685	\$ 41,087
	Others	<u>14,874</u>	<u>11,336</u>
		<u>\$ 39,559</u>	<u>\$ 52,423</u>
Other receivables	Subsidiaries		
	PT Finetek Automation Indonesia	\$ 2,895	\$ -
	Fine Automation Co., Ltd.	-	157
	Others	<u>-</u>	<u>7</u>
		<u>\$ 2,895</u>	<u>\$ 164</u>

The outstanding trade receivables from related parties were unsecured. For the years ended December 31, 2019 and 2018, no impairment loss was recognized on trade receivables from related parties.

e. Payables to related parties (excluding loans from related parties)

Line Item	Related Party Category	December 31	
		2019	2018
Trade payables	Subsidiaries	<u>\$ 3,198</u>	<u>\$ 3,298</u>

The outstanding trade payables from related parties are unsecured.

j. Disposals of property, plant and equipment

Related Party Category/Name	Proceeds		Gain (Loss) on Disposal	
	For the Year Ended December 31		For the Year Ended December 31	
	2019	2018	2019	2018
Subsidiaries				
Aplus Finetek Senior Inc.	\$ 602	\$ 412	\$ 120	\$ 84
PT. Finetek Automation Indonesia	<u>345</u>	<u>-</u>	<u>308</u>	<u>-</u>
	<u>\$ 947</u>	<u>\$ 412</u>	<u>\$ 428</u>	<u>\$ 84</u>

g. Other transactions with related parties

Line Item	Related Party Category	For the Year Ended December 31	
		2019	2018
General and administrative expenses - donation	Related party in substance Yilan Wu Sha Culture Foundation	\$ 3,000	\$ -
Other gains and losses - receipts of payments under custody	Subsidiaries		
	Aplus Fintek Sensor Inc.	\$ 1,088	\$ 12
	Finetek Pte., Ltd.	168	723
	Others	9	26
	Related party in substance	-	205
		<u>\$ 1,265</u>	<u>\$ 966</u>

h. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 18,571	\$ 13,626
Post-employment benefit	<u>460</u>	<u>298</u>
	<u>\$ 19,031</u>	<u>\$ 13,924</u>

The remunerations of directors and key executives were determined by the remuneration committee on the basis of individual performance and market trends.

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for government grant projects:

	December 31	
	2019	2018
Pledged bank deposits (classified as other financial assets - current)	<u>\$ 2,700</u>	<u>\$ 11,454</u>

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant contingencies and unrecognized commitments of the Company at the end of the reporting period were as follows:

As of December 31, 2019, unrecognized commitments for purchases of property, plant and equipment amounted to \$3,257 thousand.

32. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- a. On February 26, 2020, Faco International Co., Ltd.'s board of directors decide to distribute RMB9,639 thousand to its parent company, Powerline Corp. On February 26, 2020, Powerline Corp.'s board of directors decided to distribute RMB9,639 thousand to the Company.

- b. In response to operating development needs, the Company proposed in the board of directors' meeting on March 20, 2020 to acquire the properties located in the Tucheng District of New Taipei City for NT\$315,000 thousand based on market prices and the professional valuation report.

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than the functional currencies of the Company, and the exchange rates between the foreign currencies and the New Taiwan dollar are disclosed. The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2019

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 4,478	29.98 (USD:NTD)	\$ 134,248
RMB	20,614	4.305 (RMB:NTD)	\$ 88,742
Non-monetary items			
Investments accounted for using the equity method	18,078	29.98 (USD:NTD)	\$ 541,965
	4,029	33.59 (EUR:NTD)	\$ 135,338
	17,699,202	0.00218 (IDR:NTD)	\$ 38,449
<u>Financial liabilities</u>			
Monetary items			
USD	35	29.98 (USD:NTD)	\$ 1,059
RMB	36	4.305 (RMB:NTD)	\$ 154

December 31, 2018

	Foreign Currency	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 2,649	30.715 (USD:NTD)	\$ 81,363
RMB	19,511	4.472 (RMB:NTD)	\$ 87,255
Non-monetary items			
Investments accounted for using the equity method	19,366	30.715 (USD:NTD)	\$ 594,817
	18,081,587	0.00213 (IDR:NTD)	\$ 38,315
<u>Financial liabilities</u>			
Monetary items			
USD	25	30.715 (USD:NTD)	\$ 755
RMB	523	4.472 (RMB:NTD)	\$ 2,341

For the years ended December 31, 2019 and 2018, realized and unrealized net foreign exchange gains (losses) were \$(6,529) thousand and \$1,023 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Company.

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and b. investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures) (Table 1)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital (Table 2)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (None)
- 9) Trading in derivative instruments (None)
- 10) Information on investees (Table 4)

c. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the year, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 5)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses (Table 6):
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the year
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the year
 - c) The amount of property transactions and the amount of the resultant gains or losses

- d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and the purposes
- e) The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds
- f) Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services

TABLE 1

FINETEK CO., LTD.

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Number of Shares (In Thousands of Shares)	Carrying Amount	Percentage of Ownership (%)	Fair Value	
The Company	<u>Domestic listed shares</u> Morn Sun Feed Mill Corp.	The Chairman of the entity is the Chairman of the Company	Financial assets at FVTPL - current	251	\$ 13,276	-	\$ 13,276	
	<u>Domestic unlisted shares</u> Ultracker Technology Co., Ltd.	None	Financial assets at FVTOCI - non-current	1,250	15,000	9.14	15,000	Note 1
	<u>Foreign investments</u> Corporate bonds - Deutsche Bank	None	Financial assets at amortized cost - non-current	1	6,005	-	5,913	Note 2
	Corporate bonds - Société Générale	None	Financial assets at amortized cost - non-current	1	5,990	-	6,238	Note 2
Faco International Co., Ltd.	<u>Foreign investments</u> Corporate bonds - Deutsche Bank	None	Financial assets at amortized cost - non-current	1	14,917	-	14,782	Note 2

Note 1: Refer to Note 28 (b) for information relating to the fair value measurement of domestic investments.

Note 2: Refer to Note 28 (a) for information relating to the fair value measurement of foreign investments.

TABLE 2

FINETEK CO., LTD.

**MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Number of Shares (Note 1)	Amount	Number of Shares (Note 1)	Amount	Number of Shares (Note 1)	Amount	Carrying Amount	Gain (Loss) on Disposal (Note 2)	Number of Shares (Note 1)	Amount
The Company	Finetek GmbH	Investments accounted for using the equity method	Gain Access Investments Ltd.	Subsidiary	-	\$ -	-	\$ 115,786	-	\$ -	\$ -	\$ -	-	\$ 115,786
The Company	Finetek GmbH	"	Faco International Co., Ltd.	Second-tier subsidiary	-	-	-	12,869	-	-	-	-	-	12,869
Gain Access Investments Ltd.	Finetek GmbH	"	The Company	Subsidiary	-	105,576	-	-	-	115,786	121,130	-	-	-
Faco International Co., Ltd.	Finetek GmbH	"	The Company	Second-tier subsidiary	-	11,731	-	-	-	12,869	13,463	-	-	-

Note 1: As these are limited liability companies, they have no shares.

Note 2: On May 10, 2019, the Company’s board of directors decided to undergo a reorganization of the Group’s structure, and purchased 90% and 10% of Finetek GmbH from its subsidiary Gain Access Investments Ltd. and its second-tier subsidiary Faco International Co., Ltd., respectively, and the difference between the purchase price and the carrying amount was adjusted to retained earnings.

TABLE 3

FINETEK CO., LTD.

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes Receivable (Payable)/Trade Receivables (Payables)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price (Note 2)	Payment Terms	Ending Balance	% of Total	
The Company	Fine Automation Co., Ltd.	Parent company to subsidiary	Sale	\$ 203,839	28	Net 90 days from the end of the month of when invoice is issued	Price set based on cost-plus pricing	Net 0-150 days from the end of the month of when invoice is issued	\$ 24,685	19	-
The Company	Aplus Finetek Sensor Inc.	Parent company to subsidiary	Sale	96,278	13	Net 90 days from the end of the month of when invoice is issued	Price set based on cost-plus pricing	Net 0-150 days from the end of the month of when invoice is issued	8,273	6	-
Fine Automation Co., Ltd.	The Company	Subsidiary to parent company	Purchase	203,839	79	Net 90 days from the end of the month of when invoice is issued	Price set based on cost-plus pricing	Net 30-180 days from the end of the month of when invoice is issued	(24,685)	(66)	-
Aplus Finetek Sensor Inc.	The Company	Subsidiary to parent company	Purchase	96,278	96	Net 90 days from the end of the month of when invoice is issued	Price set based on cost-plus pricing	Net 30-60 days from the end of the month of when invoice is issued	(8,273)	(100)	-

Note: Selling prices to general customers were determined based on the general market, and the purchase prices from general vendors were determined based on negotiation with counterparties.

TABLE 4

FINETEK CO., LTD.

INFORMATION ON INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		As of December 31, 2019			Net Income/(Loss) of the Investee	Share of Profit/(Loss) of Investee	Remark
				December 31, 2019	December 31, 2018	Number of Shares (Thousands of Shares)	%	Carrying Amount			
The Company	Powerline Corp. (SAMOA)	Samoa	Investment activities	\$ 72,578 (US\$ 2,211)	\$ 72,578 (US\$ 2,211)	1,811	100.00	\$ 430,493	\$ 52,471	\$ 52,471	Subsidiary (Note 1)
	Golden Land International Corp. (SAMOA)	Samoa	Investment activities	10,176 (US\$ 340)	10,176 (US\$ 340)	340	100.00	55,997	10,527	10,527	Subsidiary (Note 1)
	Gain Access Investments Ltd.	Samoa	Investment activities	66,941 (US\$ 1,875)	125,000 (US\$ 3,750)	1,875	100.00	55,475	7,431	7,431	Subsidiary (Notes 1 and 4)
	PT. Finetek Automation Indonesia	Indonesia	Manufacturing and selling of transmitters, point switches and electronic terminals	42,328 (US\$ 1,396)	38,998 (US\$ 1,287)	1,494	99.65	38,449	(4,139)	(4,125)	Subsidiary (Notes 1 and 5)
	Finetek GmbH	Germany	Sale of transmitters, point switches and electronic terminals	128,655 (US\$ 4,129)	-	-	100.00	135,338	16,157	8,211	Subsidiary (Notes 1 and 6)
Golden Land International Corp. (Samoa)	Aplus Finetek Sensor Inc.	U.S.A.	Sale of transmitters, point switches and electronic terminals	9,995 (US\$ 331)	9,995 (US\$ 331)	500	100.00	55,741	10,525	10,525	Second-tier subsidiary (Note 1)
Gain Access Investments Ltd.	Finetek GmbH	Germany	Sale of transmitters, point switches and electronic terminals	-	105,576 (US\$ 3,337)	-	-	-	16,157	7,151	Subsidiary (Notes 1 and 6)
Powerline Corp. (Samoa)	Faco International Co., Ltd.	British Virgin Islands	Investment activities	59,240 (US\$ 1,811)	59,240 (US\$ 1,811)	1,811	100.00	446,078	52,470	52,470	Second-tier subsidiary (Note 1)
Faco International Co., Ltd.	Finetek Pte., Ltd.	Singapore	Sale of transmitters, point switches and electronic terminals	24,247 (US\$ 745)	24,247 (US\$ 745)	1,672	100.00	9,654	(3,503)	(3,503)	Third-tier subsidiary (Note 1)
	Finetek GmbH	Germany	Sale of transmitters, point switches and electronic terminals	-	11,731 (US\$ 371)	-	-	-	16,157	795	Subsidiary (Notes 1 and 6)
Finetek GmbH	Mutec Instruments GmbH	Germany	Sale of transmitters, point switches and electronic terminals	112,425 (US\$ 3,256)	112,425 (US\$ 3,256)	450	100.00	132,200	18,625	15,161	Second-tier subsidiary (Note 1)

Note 1: Amounts were recognized based on the audited financial statements.

Note 2: The amounts above are listed in the New Taiwan dollars. Foreign currencies are translated into NTD using the spot exchange rate at the balance sheet date, and the profits/losses are translated into NTD using the average exchange rate in the reporting period.

Note 3: Refer to Table 5 for information relating to investment in mainland China.

Note 4: In September 2019, Gain Access Investments Ltd.'s board of directors decided to reduce its capital in cash of US\$1,875 thousand (NT\$58,059 thousand).

Note 5: During the year 2019, the Company invested US\$109 thousand (NT\$3,330 thousand) in its subsidiary PT. Finetek Automation Indonesia.

Note 6: On May 10, 2019, the Company's board of directors decided to undergo a reorganization of the Group's structure, and purchased 90% and 10% of Finetek GmbH from its subsidiary Gain Access Investments Ltd. and its second-tier subsidiary Faco International Co., Ltd. with US\$3,716 thousand and US\$413 thousand (NT\$115,786 thousand and NT\$12,869 thousand), respectively; and the transaction was completed on May 14, 2019. After reorganization of the Group structure, Finetek GmbH became a wholly-owned subsidiary of the Company.

TABLE 5**FINETEK CO., LTD.**
**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investments from Taiwan as of January 1, 2019 (Note 3)	Remittance of Funds		Accumulated Outward Remittance for Investments from Taiwan as of December 31, 2019 (Note 3)	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2019 (Note 2)	Accumulated Repatriation of Investment Income as of December 31, 2019 (Note 6)	Note
					Outward	Inward							
Fine Automation Co., Ltd.	Designing, manufacturing and selling of transmitters, point switches and electronic terminals	\$ 70,950 (US\$ 2,230)	Note 1 (b)	\$ 24,372 (US\$ 720)	\$ -	\$ -	\$ 24,372 (US\$ 720)	\$ 54,904	100	\$ 54,904	\$ 373,663	\$ 45,889	Note 7

Accumulated Outward Remittance for Investments in Mainland China as of December 31, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Upper Limit on the Amount of Investments Stipulated by the Investment Commission, MOEA
\$24,372 (US\$720) (Note 3)	\$70,950 (US\$2,230) (Note 4)	\$816,989 (Note 5)

Note 1: The methods of investment in mainland China are categorized into the following:

- a. Direct investment in mainland China.
- b. Indirect investment in mainland China through companies registered in a third region (Powerline Corp. (Samoa)'s reinvestment in mainland China through investment in Faco International Co., Ltd.).
- c. Other methods

Note 2: Amount was recognized based on the audited financial statements.

Note 3: The amounts were translated into foreign currencies using the exchange rates prevailing on the remittance dates

Note 4: Approval letter No. 092044421, 10100385930 and 10300286220. The original investment amount as of December 31, 2019 was \$70,950 thousand (US\$2,230 thousand), which consisted of accumulated outward remittance from Taiwan for investments amounting to \$24,372 thousand (US\$720 thousand) and capitalization of retained earnings amounting to \$46,578 thousand (US\$1,510 thousand).

Note 5: Pursuant to Order No. 09704604680 issued by the FSC, the amount above was calculated based on 60% of the Group's net equity as of December 31, 2019. (\$1,361,648 thousand × 60% = \$816,989 thousand)

Note 6: In December 2019, Fine Automation Co., Ltd. distributed retained earnings of RMB10,699 thousand (NT\$45,889 thousand) to its parent company, Faco International Co., Ltd., and distributed retained earnings to the Company through Faco International Co., Ltd. and Powerline Corp. The transactions were approved by Letter No. 10800398670.

FINETEK CO., LTD.

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

- a. The amounts and percentages of purchases and the balances and percentages of the related payables at the end of the year, and
- b. The amounts and percentages of sales and the balances and percentages of the related receivables at the end of the year:

Investee Company	Transaction Type	Purchase/Sale		Price	Transaction Details		Notes/Accounts Receivable (Payable)		Unrealized (Gain) Loss
		Amount	%		Payment Terms	Comparison with Normal Transactions	Ending Balance	%	
Fine Automation Co., Ltd.	Sales	\$ 203,839	28	Price set based on cost-plus pricing	Net 90 days from the end of the month of when invoice is issued	Not significantly different from those of sales to third parties	\$ 24,685	19	\$ 15,025
Fine Automation Co., Ltd.	Purchases	7,401	4	Price set based on cost-plus pricing	Net 90 days from the end of the month of when invoice is issued	Not significantly different from those of purchases from third parties	(2,132)	5	-

- c. The amount of property transactions and the amount of the resultant gains or losses: None.
- d. The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the year and their purposes: None.
- e. The highest balance, the ending balance, the interest rate range, and total current period interest with respect to the financing of funds: None.
- f. Other transactions that have a material effect on the profit or loss for the year or on the financial position, such as the rendering or receipt of services: None.

FINETEK CO., LTD.

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FINETEK CO., LTD.**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Summary	Amount
Petty cash		\$ 1,585
Bank deposits		
Checking accounts		5
Demand deposits		65,586
Foreign currency deposits	Including US\$1,026 thousand, EUR138 thousand, JPY1,679 thousand, RMB1,466 thousand and SGD2 thousand	42,207
Cash equivalents		
Time deposits	Including US\$2,497 thousand and RMB13,409 thousand	<u>132,597</u>
		<u>\$ 241,980</u>

Note: Amounts were translated into NTD using the exchange rates as follows:

USD/NTD=29.980

EUR/NTD=33.590

JPY/NTD=0.276

RMB/NTD=4.305

SGD/NTD=22.280

FINETEK CO., LTD.**STATEMENT OF NOTES RECEIVABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Client Name	Summary	Amount
Non-related parties		
Asia Kingdom Machinery Industry Co., Ltd.	Payments	\$ 1,441
Marketch International Corp.	Payments	978
Uranus Chemicals Co., Ltd.	Payments	957
Others (Note)	Payments	<u>14,027</u>
		<u>\$ 17,403</u>

Note: The balance of each individual client included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.**STATEMENT OF TRADE RECEIVABLES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Client Name	Summary	Amount
Non-related parties		
Chunghwa System Integration Co., Ltd.	Payments	\$ 9,685
Others (Note)	Payments	64,099
Less: Allowance for impairment loss		<u>(672)</u>
		<u>\$ 73,913</u>
Related parties		
Fine Automation Co., Ltd.	Payments	\$ 24,685
Aplus Finetek Sensor Inc.	Payments	8,273
Finetek Pte., Ltd.	Payments	6,442
Others (Note)	Payments	<u>159</u>
		<u>\$ 39,559</u>

Note: The balance of each individual client included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.**STATEMENT OF INVENTORIES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Amount	
	Cost	Net Realizable Value (Note)
Merchandise inventory	\$ 515	\$ 327
Finished goods	115,001	87,467
Work in progress	12,686	12,362
Raw materials	<u>47,619</u>	<u>29,789</u>
	175,821	<u>\$ 129,945</u>
Less: Allowance for inventory write-downs	<u>(45,876)</u>	
	<u>\$ 129,945</u>	

Note: Refer to Note 4(e).

FINETEK CO., LTD.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Financial Instrument Name	Balance, January 1, 2019		Increase in the Current Year		Decrease in the Current Year		Gain/(Loss) on Financial Assets at FVTOCI	Balance, December 31, 2019		Collateral	Note
	Number of Shares (In Thousands of Shares)	Amount	Number of Shares (In Thousands of Shares)	Amount	Number of Shares (In Thousands of Shares)	Amount		Number of Shares (In Thousands of Shares)	Amount		
Domestic unlisted shares											
Ultracker Technology Co., Ltd.	-	\$ -	1,250	\$ 15,000	-	\$ -	\$ -	1,250	\$ 15,000	Nil	

FINETEK CO., LTD.

STATEMENT OF CHANGES IN FINANCIAL ASSETS AT AMORTIZED COST - NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Name	Summary		Balance, January 1, 2019		Increase in the Current Year		Decrease in the Current Year		Balance, December 31, 2019		Collateral
	Interest Payment Date	Principal Payment Date	Number of Units	Carrying Amount	Number of Units	Amount	Number of Units	Amount	Number of Units	Carrying Amount	
Foreign investments											
Corporate bonds - Deutsche Bank	Annually on April 1 and October 1	April 1, 2025	1	\$ 6,153	-	\$ -	-	\$ (148)	1	\$ 6,005	Nil
Corporate bonds - Société Générale	Annually on April 14 and October 14	April 14, 2025	1	<u>6,136</u>	-	<u>-</u>	-	<u>(146)</u>	1	<u>5,990</u>	Nil
				<u>\$ 12,289</u>		<u>\$ -</u>		<u>\$ (294)</u>		<u>\$ 11,995</u>	

Note: The decrease in the current year are is due to amortization of discounts (premiums) and exchange losses.

FINETEK CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Name	Balance, January 1, 2019		Increase in the Current Year		Decrease in the Current Year		Share of Profit or Loss of Subsidiaries, Associates and Joint Ventures	Exchange Differences on Translating the Financial Statements of Foreign Operations	Balance, December 31, 2019			Market Value or Net Asset Value (Note 1)		Collateral
	Number of Shares (In Thousands of Shares)	Amount	Number of Shares (In Thousands of Shares)	Amount	Number of Shares (In Thousands of Shares)	Amount			Number of Shares (In Thousands of Shares)	%	Amount	Unit Price (NT\$)	Total Amount	
Powerline Corp. (SAMOA) (Note 2)	1,811	\$ 434,973	-	\$ 24,545	-	\$ (61,691)	\$ 52,471	\$ (19,805)	1,811	100	\$ 430,493	246	\$ 446,295	Nil
Golden Land International Corp. (SAMOA)	340	46,910	-	-	-	-	10,527	(1,440)	340	100	55,997	165	55,997	Nil
Gain Access Investments Ltd. (Note 3)	3,750	112,934	-	-	(1,875)	(58,059)	7,431	(6,831)	1,875	100	55,475	30	55,475	Nil
PT. Finetek Automation Indonesia (Note 4)	1,379	38,315	115	3,330	-	-	(4,125)	929	1,494	99.65	38,449	26	38,449	Nil
Finetek GmbH (Note 5)	-	-	-	128,655	-	-	8,211	(1,528)	-	100	135,338	-	135,338	Nil
		\$ 633,132		\$ 156,530		\$ (119,750)	\$ 74,515	\$ (28,675)			\$ 715,752		\$ 731,554	

Note 1: Amount was estimated based on the net asset value of the investee company as of December 31, 2019 from the financial statements which have been audited by the auditor of the parent company for the same periods and adjusted for intercompany unrealized gain on transactions.

Note 2: The increase in the current year was due to the reversal of the unrealized sales profit of \$24,545 thousand from upstream transactions with its subsidiaries; the decrease in the current year was due to the unrealized sales profit of \$15,802 thousand from upstream transactions with its subsidiaries and remittance of earnings of \$45,889 thousand from its subsidiaries.

Note 3: The decrease in the current year is caused by the capital reduction in cash of subsidiaries amounting to \$58,059 thousand.

Note 4: The increase in the current year is due to the increase in investments in subsidiaries amounting to \$3,330 thousand.

Note 5: The increase in the current year is caused by the Company's purchase of 90% and 10% of Finetek GmbH's shares from its subsidiary Gain Access Investments Ltd. and its second-tier subsidiary Faco International Co., Ltd., respectively, amounting to \$128,655 thousand.

FINETEK CO., LTD.

STATEMENT OF SHORT-TERM BORROWINGS
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars or Thousands of Foreign Currencies)

Creditor and Category of Borrowings	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Financing Limit	Collateral
Credit borrowings					
Mega International Commercial Bank Co., Ltd.	\$ 30,000	2019.11.11-2020.05.09	1.20	\$ 50,000	Nil
E.SUN Commercial Bank Ltd.	30,000	2019.10.09-2020.01.09	1.20	50,000	Nil
Taipei Fubon Commercial Bank Co., Ltd.	5,000	2019.10.07-2020.04.04	1.21	50,000	Nil
Taiwan Business Bank Co., Ltd.	<u>-</u>	-	-	<u>100,000</u>	Nil
	<u>\$ 65,000</u>			<u>\$ 250,000</u>	

FINETEK CO., LTD.**STATEMENT OF CONTRACT LIABILITIES - CURRENT****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Client Name	Summary	Amount
Non-related parties		
Chunghwa System Integration Co., Ltd.	Payments	\$ 6,286
Dwyer Instruments, Inc.	Payments	499
Others (Note)	Payments	<u>3,139</u>
		<u>\$ 9,924</u>

Note: The balance of each individual vendor included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.**STATEMENT OF NOTES PAYABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Vendor Name	Summary	Amount
Non-related parties		
He-An Technology Ltd.	Payments	\$ 1,451
Tong-Sheng Industrial Ltd.	Payments	821
Hong-Rih Company	Payments	481
Kai-Sheng Industrial Ltd.	Payments	475
Ten Chance Ent Co., Ltd.	Payments	424
Li-He Industrial Ltd.	Payments	271
Others (Note)	Payments	<u>1,418</u>
		<u>\$ 5,341</u>

Note: The balance of each individual vendor included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.**STATEMENT OF TRADE PAYABLES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Vendor Name	Amount
Related parties	
Fine Automation Co., Ltd.	\$ 2,132
Mutec Instruments GmbH	<u>1,066</u>
	<u>\$ 3,198</u>
Non-related parties	
Chia Horng Steel Mold Mfg. Corp	\$ 3,598
Excel Cell Electronic Co., Ltd.	3,450
He-Sheng Company	2,509
Fluo-Tech Industrial Co., Ltd.	2,421
Others (Note)	<u>25,250</u>
	<u>\$ 37,228</u>

Note: The balance of each individual vendor included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.

**STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Amount
Process automated sensor development	\$ 571,180
Pneumatic control system	65,541
Others (Note)	82,843
Less: Sales returns and allowances	<u>(3,165)</u>
	<u>\$ 716,399</u>

Note: The balance of each individual item included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.

STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Amount
Merchandise inventory, beginning of year	\$ 560
Additions: Merchandise inventory purchased	988
Deductions: Merchandise inventory, end of year	(515)
Loss on disposal of merchandise inventory	(82)
Transferred to expenses	(19)
Cost of goods purchased (a)	932
Raw materials, beginning of year	52,015
Additions: Raw material and supplies purchased	182,779
Deductions: Raw materials and supplies, end of year	(47,619)
Loss on physical raw materials and supplies	(51)
Loss on disposal of raw materials and supplies	(1,771)
Transferred to expenses	(802)
Cost of raw material and supplies used	184,551
Direct labor	41,598
Manufacturing expense	107,492
Manufacturing cost	333,641
Work in progress, beginning of year	13,899
Deductions: Work in progress, end of year	(12,686)
Cost of finished goods	334,854
Finished goods, beginning of year	122,520
Additions: Gains on physical finished goods	325
Others	398
Deductions: Finished goods, end of year	(115,001)
Loss on disposal of finished goods	(3,674)
Cost of goods manufacturing (b)	339,422
Other operating costs (c)	1,147
Disposal of inventory (d)	5,527
Inventory write-downs (e)	6,827
Gains on physical inventory (f)	(274)
Operating costs (a) + (b) + (c) + (d) + (e) + (f)	\$ 353,581

FINETEK CO., LTD.

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Selling and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Expected Credit Loss Reversed
Payroll and bonus expense (including pension and directors' remuneration)	\$ 43,566	\$ 29,922	\$ 27,599	\$ -
Advertising expense	10,890	62	-	-
Delivery expense	14,508	3	14	-
Insurance expense	4,746	2,533	2,339	-
Traveling expense	5,885	1,691	472	-
Professional service fees	979	4,014	4,150	-
Donations	-	3,000	-	-
Research expenses	-	-	3,921	-
Expected credit loss reversed	-	-	-	(2,439)
Others (Note)	<u>19,378</u>	<u>9,130</u>	<u>11,803</u>	<u>-</u>
	<u>\$ 99,952</u>	<u>\$ 50,355</u>	<u>\$ 50,298</u>	<u>\$ (2,439)</u>

Note: The balance of each individual item included in others does not exceed 5% of the account balance.

FINETEK CO., LTD.

STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019			2018		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Labor cost						
Salary and bonus	\$ 68,403	\$ 87,767	\$ 156,170	\$ 70,566	\$ 86,800	\$ 157,366
Labor and health insurance	7,164	9,236	16,400	7,043	9,051	16,094
Pension	3,128	4,599	7,727	3,269	4,603	7,872
Directors' remuneration	-	8,721	8,721	-	4,863	4,863
Others	<u>6,622</u>	<u>5,788</u>	<u>12,410</u>	<u>6,816</u>	<u>6,177</u>	<u>12,993</u>
	<u>\$ 85,317</u>	<u>\$ 116,111</u>	<u>\$ 201,428</u>	<u>\$ 87,694</u>	<u>\$ 111,494</u>	<u>\$ 199,188</u>
Depreciation expense	<u>\$ 18,671</u>	<u>\$ 4,420</u>	<u>\$ 23,091</u>	<u>\$ 17,960</u>	<u>\$ 4,579</u>	<u>\$ 22,539</u>
Amortization expense	<u>\$ 1,221</u>	<u>\$ 5,872</u>	<u>\$ 7,093</u>	<u>\$ 1,410</u>	<u>\$ 6,786</u>	<u>\$ 8,196</u>

Note 1: For the years ended December 31, 2019 and 2018, the Company had 296 and 303 employees, respectively, of which 5 and 4 directors were not concurrently serving as employees, respectively.

- Note 2:
- For the years ended December 31, 2019 and 2018, the average employee benefits expense (excluding director's remuneration) were \$662 thousand and \$650 thousand, respectively.
 - For the years ended December 31, 2019 and 2018, the average employee's salary and bonus were \$537 thousand and \$526 thousand, respectively.
 - The average employees' salary and bonus increased by 2.09% in 2019 from the previous year.