

Accton Technology Corporation

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Accton Technology Corporation

Opinion

We have audited the accompanying financial statements of Accton Technology Corporation (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 (collectively referred to as the "financial statements").

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 audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the 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 matters identified in the Company's parent company only financial statements for the year ended December 31, 2019 are stated as follows:

Revenue recognition

For the year ended December 31, 2019, the Company's net operating revenue was NT\$49,953,689 thousand. Refer to Notes 4 and 22 to the financial statements for the detailed information on accounting policies on revenue.

The Group's operating revenue in recent years have significantly impacted the financial statements for the year ended December 31, 2019. However, sales from some of the Company's customers have grown significantly; therefore, we considered the occurrence of revenue as a key audit matter.

In response to the above key audit matter, we performed the following procedures:

1. We understood the internal control design and operating procedures regarding the sales transaction cycle, and we assessed the effectiveness of the internal control operations.
2. We obtained new client's information and inspected whether it was consistent with the system of the customer and was approved by the competent supervisor or not.
3. We selected appropriate samples from sales and inspected whether purchase orders and delivery orders were consistent with invoices or not.
4. We selected appropriate samples from accounts receivable and reviewed whether certificates of remittance and counterparties were consistent with the recorded amounts and counterparties and were approved by the competent supervisor or not.
5. We inspected and analyzed the reasonableness of sales returns and discounts in the subsequent period.

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.

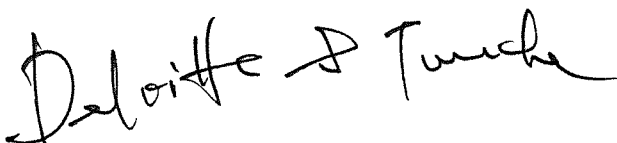
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If 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 the 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 Cheng Chih Lin and Yu Feng Huang.



Deloitte & Touche
Taipei, Taiwan
Republic of China

March 19, 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.

ACCTON TECHNOLOGY CORPORATION

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 3,382,500	11	\$ 2,507,795	11
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 30)	315,232	1	-	-
Financial assets at fair value through other comprehensive income - current (Notes 4, 8 and 30)	123,235	-	144,138	1
Financial assets at fair value through profit or loss - non-current (Notes 4, 9 and 30)	4,103,392	14	-	-
Trade receivables, net (Notes 4, 5 and 10)	4,162,120	14	5,387,144	23
Receivables from related parties (Notes 4, 5 and 31)	3,782,379	13	3,662,369	16
Other receivables (Notes 4 and 10)	80,806	-	63,775	-
Other receivables from related parties (Notes 4 and 31)	1,013,925	3	781,590	3
Inventories (Notes 4, 5 and 11)	5,059,526	17	3,667,679	16
Prepayments (Note 16)	102,990	-	97,061	-
Other current assets (Note 16)	6,186	-	10,129	-
Total current assets	<u>22,132,291</u>	<u>73</u>	<u>16,321,680</u>	<u>71</u>
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss - non-current (Notes 4, 7 and 30)	89,731	1	107,022	1
Financial assets at fair value through profit or loss - non-current (Notes 4, 9 and 30)	-	-	16,010	-
Investments accounted for using the equity method (Notes 4, 12 and 31)	6,320,171	21	6,029,096	26
Property, plant and equipment (Notes 4, 13 and 31)	894,509	3	448,783	2
Right-of-use assets (Notes 3, 4, 5 and 14)	521,032	2	-	-
Intangible assets (Notes 4 and 15)	49,263	-	32,385	-
Deferred tax assets (Notes 4 and 24)	46,294	-	44,371	-
Prepayments for equipment	73,028	-	9,123	-
Refundable deposits	24,050	-	12,534	-
Other non-current assets - other (Notes 16 and 32)	22,000	-	15,500	-
Total non-current assets	<u>8,040,078</u>	<u>27</u>	<u>6,714,824</u>	<u>29</u>
TOTAL	<u>\$ 30,172,369</u>	<u>100</u>	<u>\$ 23,036,504</u>	<u>100</u>
The accompanying notes are an integral part of the financial statements.				

	2019		2018	
	Amount	%	Amount	%
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities - current (Notes 4 and 22)	\$ 542,726	2	\$ 331,042	1
Trade payables	4,787,086	16	3,038,121	13
Trade payables to related parties (Note 31)	6,937,837	23	7,423,671	32
Bonuses to employees and directors (Note 23)	743,421	2	517,884	2
Payables to machinery and equipment	123,867	-	67,936	-
Other payables (Note 18)	1,759,399	6	600,158	3
Other payables to related parties (Note 31)	165,477	1	208,448	1
Current tax liabilities (Notes 4 and 24)	749,646	3	382,264	2
Provisions - current (Notes 4 and 19)	44,380	-	143,552	1
Lease liabilities - current (Notes 3, 4, 5 and 14)	79,771	-	-	-
Deferred revenue - current (Notes 17 and 27)	8,317	-	-	-
Refund liabilities - current (Note 22)	3,179	-	23,369	-
Total current liabilities	<u>15,945,206</u>	<u>53</u>	<u>12,736,445</u>	<u>55</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 17)	920,639	3	-	-
Lease liabilities - non-current (Notes 3, 4, 5 and 14)	429,941	2	-	-
Deferred revenue - non-current (Notes 17 and 27)	44,044	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	26,809	-	27,331	-
Guarantee deposits	816	-	826	-
Other non-current liabilities (Note 12)	4,027	-	-	-
Total non-current liabilities	<u>1,426,276</u>	<u>5</u>	<u>28,157</u>	<u>5</u>
Total liabilities	<u>17,371,982</u>	<u>58</u>	<u>12,764,602</u>	<u>55</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 4, 21 and 26)				
Share capital	5,580,514	18	5,575,899	24
Capital surplus	805,715	3	795,148	3
Retained earnings	1,348,157	4	1,052,912	5
Legal reserve	307,492	1	253,675	1
Special reserve	5,347,752	18	2,932,758	13
Unappropriated earnings	7,003,401	23	4,259,345	19
Total retained earnings	(538,244)	(2)	(307,491)	(1)
Other equity	(50,999)	-	(50,999)	-
Treasury shares	-	-	-	-
Total equity	<u>12,800,387</u>	<u>42</u>	<u>10,271,902</u>	<u>45</u>
TOTAL	<u>\$ 30,172,369</u>	<u>100</u>	<u>\$ 23,036,504</u>	<u>100</u>

ACCTON TECHNOLOGY CORPORATION

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 31)	\$49,953,689	100	\$41,218,729	100
OPERATING COSTS (Notes 4, 11, 20, 23 and 31)	<u>41,812,113</u>	<u>84</u>	<u>35,510,073</u>	<u>86</u>
GROSS PROFIT	8,141,576	16	5,708,656	14
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES (Note 4)	<u>101,255</u>	<u>-</u>	<u>(207,747)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>8,242,831</u>	<u>16</u>	<u>5,500,909</u>	<u>13</u>
OPERATING EXPENSES (Notes 4, 10, 20, 23 and 31)				
Selling and marketing	1,245,650	2	1,190,798	3
General and administrative	977,931	2	712,324	1
Research and development	1,414,273	3	1,205,377	3
Expected credit loss	<u>-</u>	<u>-</u>	<u>711</u>	<u>-</u>
Total operating expenses	<u>3,637,854</u>	<u>7</u>	<u>3,109,210</u>	<u>7</u>
OPERATING INCOME	<u>4,604,977</u>	<u>9</u>	<u>2,391,699</u>	<u>6</u>
NON-OPERATING INCOME AND EXPENSES (Notes 4, 12, 23 and 31)				
Other income	144,013	-	70,812	-
Other gains and losses	(110,873)	-	19,345	-
Finance costs	(13,213)	-	(2,818)	-
Share of profit of subsidiaries and associates	<u>1,176,626</u>	<u>3</u>	<u>879,601</u>	<u>2</u>
Total non-operating income and expenses	<u>1,196,553</u>	<u>3</u>	<u>966,940</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	5,801,530	12	3,358,639	8
INCOME TAX EXPENSE (Notes 4 and 24)	<u>851,035</u>	<u>2</u>	<u>406,190</u>	<u>1</u>
NET INCOME FOR THE YEAR	<u>4,950,495</u>	<u>10</u>	<u>2,952,449</u>	<u>7</u>

(Continued)

ACCTON TECHNOLOGY CORPORATION

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 (Notes 4, 20 and 21)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (10)	-	\$ (1,945)	-
Unrealized gain on investment in equity instruments at fair value through other comprehensive income	13,913	-	21,804	-
Share of the other comprehensive loss of subsidiaries accounted for using the equity method	(986)	-	(41,878)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating the financial statements of foreign operations	<u>(219,425)</u>	<u>-</u>	<u>(52,279)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(206,508)</u>	<u>-</u>	<u>(74,298)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,743,987</u>	<u>10</u>	<u>\$ 2,878,151</u>	<u>7</u>
EARNINGS PER SHARE (Note 25)				
Basic	<u>\$ 8.91</u>		<u>\$ 5.33</u>	
Diluted	<u>\$ 8.76</u>		<u>\$ 5.23</u>	

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

(Concluded)

ACCTON TECHNOLOGY CORPORATION

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

	Equity Attributable to Owners of the Company							
	Share Capital	Capital Surplus	Retained Earnings		Unappropriated Earnings	Other Equity		
			Legal Reserve	Special Reserve		Unrealized Gain (Loss) on Financial Assets Available-for-sale	Unrealized Gain (Loss) on Financial Assets Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2018	\$ 5,544,949	\$ 776,739	\$ 797,395	\$ 253,675	\$ 2,555,175	\$ (14,223)	\$ -	\$ 9,641,807
Effect of retrospective application and retrospective restatement	-	-	-	2,254	-	14,723	(14,234)	2,243
BALANCE AT JANUARY 1, 2018 AS RESTATED	\$ 5,544,949	\$ 776,739	\$ 797,395	\$ 253,675	\$ 2,557,429	\$ (220,904)	\$ (14,234)	\$ 9,644,050
Other changes in capital surplus	-	9,129	-	-	-	-	-	9,129
Cash dividends received by subsidiaries from parent company	-	-	-	-	-	-	-	-
Appropriation of 2017 earnings	-	-	-	-	(255,517)	-	-	-
Legal reserve	-	-	255,517	-	(2,299,658)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	2,952,449	-	-	(2,299,658)
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	-	2,952,449
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,945)	(52,279)	(20,074)	(74,298)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	2,950,504	(52,279)	(20,074)	2,878,151
Share-based payment arrangements	30,950	9,280	-	-	-	-	-	40,230
BALANCE AT DECEMBER 31, 2018	\$ 5,575,899	\$ 795,148	\$ 1,052,912	\$ 253,675	\$ 2,952,758	\$ (273,183)	\$ (34,308)	\$ 10,271,902
Disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	23,717	-	(23,717)	-
Other changes in capital surplus	-	-	-	-	-	-	-	-
Cash dividends received by subsidiaries from parent company	-	8,836	-	-	-	-	-	8,836
Appropriation of 2018 earnings	-	-	-	-	(295,245)	-	-	-
Legal reserve	-	-	295,245	-	(53,817)	-	-	-
Special reserve	-	-	-	53,817	(2,230,684)	-	-	-
Cash dividends distributed by the Company	-	-	-	-	4,950,495	-	-	(2,230,684)
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	-	4,950,495
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	528	-	(219,425)	12,389	(206,508)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	4,951,023	-	(219,425)	12,389	4,743,987
Share-based payment arrangements	4,615	1,731	-	-	-	-	-	6,346
BALANCE AT DECEMBER 31, 2019	\$ 5,580,514	\$ 805,715	\$ 1,348,157	\$ 307,492	\$ 5,347,752	\$ (492,608)	\$ (45,636)	\$ 12,800,387

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

ACCTON TECHNOLOGY CORPORATION

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	\$ 5,801,530	\$ 3,358,639
Adjustments for:		
Depreciation	261,001	110,269
Amortization	27,855	24,058
Expected credit loss	-	711
Net loss on fair value changes of financial assets designated as at fair value through profit or loss	15,295	28,339
Finance costs	13,213	2,818
Interest income	(69,311)	(41,308)
Dividend income	(8,937)	(9,904)
Dividends received from investments accounted for using equity method	501,891	686,467
Share of profit of subsidiaries and associates	(1,176,626)	(879,601)
(Gain) loss on disposal of property, plant and equipment	(806)	21
Loss on disposal of subsidiary	49	3,140
Write-downs of inventories	125,778	-
Unrealized (gain) loss on transactions with subsidiaries	(101,255)	207,747
Unrealized loss (gain) on foreign currency exchange	110,869	(45,380)
Loss on lease modification	231	-
Changes in operating assets and liabilities		
Trade receivables	1,148,715	(1,610,701)
Trade receivables from related parties	(373,633)	(1,368,650)
Other receivables	(4,744)	(27,789)
Other receivables from related parties	209,426	328,126
Inventories	(1,517,625)	(669,256)
Prepayments	(5,929)	(43,594)
Other current assets	(2,557)	(10,018)
Contract liabilities	211,684	117,689
Trade payables	1,846,327	1,220,560
Trade payables to related parties	(288,686)	559,861
Other payables	1,386,399	252,434
Other payables to related parties	(37,665)	72,786
Provisions	(99,172)	140,552
Refund liabilities	(20,190)	(19,725)
Net defined benefit liabilities	(532)	(656)
Cash generated from operations	7,952,595	2,387,635
Interest paid	(13,152)	(2,818)
Income tax paid	(446,081)	(322,492)
Net cash generated from operating activities	<u>7,493,362</u>	<u>2,062,325</u>

(Continued)

ACCTON TECHNOLOGY CORPORATION

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	\$ (1,041)	\$ -
Proceeds from sale of financial assets at fair value through other comprehensive income	35,857	-
Purchase of financial assets at amortized cost	(4,087,480)	(297,690)
Proceeds from sale of financial assets at amortized cost	-	895,568
Purchase of financial assets at fair value through profit or loss	(2,260,000)	(1,464,000)
Proceeds from sale of financial assets at fair value through profit or loss	1,946,764	1,480,110
Net cash outflow on acquisition of subsidiaries	(35,316)	-
Net cash inflow on disposal of subsidiaries	5	-
Acquisition of property, plant and equipment	(651,528)	(110,939)
Proceeds from disposal of property, plant and equipment	1,029	3,078
Increase in refundable deposits	(11,762)	(4,819)
Acquisition of intangible assets	(44,733)	(22,659)
Proceeds from disposal of intangible assets	-	185
Interest received	56,892	44,907
Dividends received	8,937	9,904
Net cash generated (used in) from investing activities	<u>(5,042,376)</u>	<u>533,645</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	100,000	-
Repayments of short-term borrowings	(100,000)	-
Proceeds from long-term borrowings	1,073,000	-
Repayments of long-term borrowings	(100,000)	-
Guarantee deposits refunded	(10)	(11)
Repayment of the principal portion of lease liabilities	(73,934)	-
Dividends paid to owners of the Company	(2,230,684)	(2,299,658)
Employee share options	6,346	40,230
Net cash used in financing activities	<u>(1,325,282)</u>	<u>(2,259,439)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>(250,999)</u>	<u>61,696</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	874,705	398,227
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>2,507,795</u>	<u>2,109,568</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 3,382,500</u>	<u>\$ 2,507,795</u>

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

(Concluded)

ACCTON TECHNOLOGY CORPORATION

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

Accton Technology Corporation (the “Company”) was incorporated in Hsinchu Science-based Industrial Park in February 1988. The Company develops, manufactures and sells innovative high-quality products for computer network systems and wireless land area network (LAN) hardware and software products and renders related technical consulting and engineering design services.

The Company’s shares has been listed on the Taiwan Stock Exchange since November 1995.

The functional currency of the Company is New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company’s board of directors on March 19, 2020.

3. APPLICATION OF NEW AMENDED AND REVISED STANDARDS 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 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 parent company only statements of comprehensive income, the Company presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the parent company only 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.

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. Except for the following practical expedients which are to be applied, the Company applies IAS 36 to all right-of-use assets.

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 excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Company uses hindsight, such as in determining lease terms, to measure lease liabilities.

The lessee's weighted average incremental borrowing rate used by the Company to calculate lease liabilities recognized on January 1, 2019 is 1.94%. The reconciliation between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is presented as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	\$ 180,434
Less: Recognition exemption for short-term leases	<u>(25,414)</u>
Undiscounted gross amounts on January 1, 2019	<u>\$ 155,020</u>
Discounted using the incremental borrowing rate on January 1, 2019	\$ 142,343
Add: Adjustments as a result of a different treatment of extension options	<u>170,317</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 312,660</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
Right-of-use assets	\$ -	\$ 312,660	\$ 312,660
Total effect on assets	<u>\$ -</u>	<u>\$ 312,660</u>	<u>\$ 312,660</u>
Lease liabilities - current	\$ -	\$ 40,062	\$ 40,062
Lease liabilities - non-current	<u>-</u>	<u>272,598</u>	<u>272,598</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 312,660</u>	<u>\$ 312,660</u>

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority has full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the Company expects to better predict the resolution of the uncertainty. The Company has to reassess its judgements and estimates if facts and circumstances change.

3) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The Company applied the above amendments prospectively.

Except for the above impact, as of the date the accompanying parent company only 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.

b. The IFRSs endorsed by the Financial Supervisory Commission (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.

As of the date the accompanying parent company only 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.

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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 1: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the accompanying parent company only 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

- 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 and IFRSs as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial instruments and net defined benefit liabilities 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, associates and joint ventures. 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 with 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 and associates, the share of other comprehensive income of subsidiaries and the 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 financial statements of the Company, transactions in currencies other than the entity'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 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 not retranslated.

For the purpose of presenting parent company only financial statements, the foreign operation (including subsidiaries and associates in other countries that use currency 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; 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.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions but is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and 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 Company similar or related items. 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 weighted-average cost on the balance sheet date. Inventory is evaluated and recorded with standard cost under daily operation; but on the closing date, the Company will calculate the actual cost of inventory by weighted average method.

f. Investments in subsidiaries

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

Subsidiaries are the entities controlled by the Company.

Under the equity method, the investment in a subsidiary is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the 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 the 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.

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 investment 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 a 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 or depreciation) 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 this, 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 had directly disposed of the related assets or liabilities.

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

g. Investments in associates

An associate is an entity over which the Company has significant influence and that is not a subsidiary. The Company uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of the equity of associates attributable to the Company.

When the Company subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates and joint ventures accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

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

h. Property, plant, and equipment

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

Depreciation on 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 method are reviewed at the end of each reporting period, with the effect of any changes in estimate 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 and is recognized in profit or loss.

i. 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 estimate accounted for on a prospective basis.

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 derecognized in profit or loss.

j. 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, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order 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 unit to which the asset belongs.

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 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 for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

k. Financial instruments

Financial assets and financial liabilities are recognized when a Company entity 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 issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 fair value through profit or loss 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 category

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

i. Financial assets at FVTPL

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 30.

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.

Financial assets, including cash and cash equivalents, trade receivables (include related parties), other receivables (include related parties), pledged time deposits, 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
- 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.

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. Fair value is determined in the manner described in Note 30.

b) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Company always recognizes lifetime expected credit losses (ECLs) for 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.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amount 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 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 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 a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

l. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Warranties

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Company's obligations.

m. Revenue recognition

The Company identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied. The advanced payments for sales of products are recognized as contract liabilities until the Company fulfills its performance obligations.

Revenue from the sale of goods

Revenue from the sale of goods comes from sales of network communication equipment. Based on the different trading conditions of the network communication equipment, sales of goods are recognized as revenue when they are delivered to the customer's specific location and 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. When the customer initially purchases the goods, 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.

n. Leasing

2019

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

1) The Company as lessor

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.

When the Company subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Company, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

2) 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 and low-value asset 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. 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 and variable lease payments which depend on an index or a rate. 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 resulting from a change in an index or a rate used to determine those payments, 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 the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

2) The Company as lessee

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

o. 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 periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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 are received.

The benefit of a government loan received at a below-market rate of interest is treated as a government grant measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

p. 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 service.

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and rereasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Current service cost and net interest on the net defined benefit liability are recognized as employee benefit expenses in the period 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 in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

q. Share-based payment arrangements

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's best estimates of the number of shares or options that are

expected to ultimately vest, with a corresponding increase in non-controlling interests. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

r. 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 at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the 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 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, unused loss carry forward 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 and associates except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference 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. A previously unrecognized deferred tax asset is 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 asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax 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 that would follow from 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 taxes 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.

s. Treasury Shares

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, issue or cancellation of the Company's own equity instruments.

The Company records its shares held by its subsidiaries as treasury shares. The recorded costs of treasury shares are based upon the carrying values of the shares as shown in the subsidiaries' books. The cash dividends received by the subsidiaries from the Company are recorded under capital surplus - treasury shares.

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 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

a. Estimated impairment of financial assets

The provision for impairment of trade receivables, investments in debt instruments, and financial guarantee contracts 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.

b. Write-down of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

c. Lessees' incremental borrowing rates

In determining a lessee's incremental borrowing rate used in discounting lease payments, a risk-free rate for the same currency and relevant duration is selected as a reference rate, and the lessee's credit spread adjustments and lease specific adjustments (such as asset type, secured position, etc.) are also taken into account.

6. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	2019	2018
Cash on hand	\$ 643	\$ 736
Checking accounts and demand deposits	2,002,517	1,063,454
Cash equivalents		
Time deposits with original maturities of less than 3 months	<u>1,379,340</u>	<u>1,443,605</u>
	<u>\$ 3,382,500</u>	<u>\$ 2,507,795</u>

The market rate intervals of cash in bank and bank overdrafts at the end of the reporting period were as follows:

	<u>December 31</u>	
	2019	2018
Bank balance	0.001%-2.330%	0.001%-3.250%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	2019	2018
<u>Financial assets at FVTPL - current</u>		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Mutual funds	<u>\$ 315,232</u>	<u>\$ -</u>
<u>Financial assets at FVTPL - non-current</u>		
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Domestic and foreign unlisted shares	<u>\$ 89,731</u>	<u>\$ 107,022</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Domestic investments		
Listed shares and emerging market shares	<u>\$ 123,235</u>	<u>\$ 144,138</u>

These investments in equity instruments are not held for trading. Instead, they 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.

9. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	2019	2018
<u>Current</u>		
Time deposits with original maturity of more than 3 months (a)	\$ 4,087,480	\$ -
Bond investment (b)	<u>15,912</u>	<u>-</u>
	<u>\$ 4,103,392</u>	<u>\$ -</u>
<u>Non-current</u>		
Bond investment (b)	<u>\$ -</u>	<u>\$ 16,010</u>

- a. The ranges of interest rates for time deposits with original maturities of more than 3 months were 0.65%-2.37% per annum as of December 31, 2020, respectively.
- b. In October 2016, the Company bought corporate bonds issued by Industrial and Commercial Bank of China Limited, New York Branch at face value of \$500 thousand, which will expire on November 13, 2020, with an effective interest rate of 2.24%.

Refer to Note 30 for information relating to their credit risk management and impairment.

10. TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	2019	2018
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 4,163,645	\$ 5,388,669
Less: Allowance for impairment loss	<u>(1,525)</u>	<u>(1,525)</u>
	<u>\$ 4,162,120</u>	<u>\$ 5,387,144</u>
<u>Other receivables</u>		
At amortized cost		
Gross carrying amount	\$ 83,852	\$ 66,821
Less: Allowance for impairment loss	<u>(3,046)</u>	<u>(3,046)</u>
	<u>\$ 80,806</u>	<u>\$ 63,775</u>

a. Trade receivables

The average credit period for sales of goods was 30 days, and some customers have credit period of 45 to 90 days after the end of the month. No interest was charged on trade receivables. Sufficient collateral was obtained, where appropriate, as a means of mitigating the risk of financial loss from default. Allowance for impairment loss was recognized against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of counterparties and analysis of their current financial position.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected credit loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtors' current financial position, adjusted for factors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. The Company estimates expected credit losses based on the number of days for which receivables are past due. As the Company's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status of receivables 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 experiencing severe financial difficulty and there is no realistic prospect of recovery of the receivable. 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 based on the Company's provision matrix.

December 31, 2019

	Not Past Due	Less than 60 Days	61 to 180 Days	Over 180 Days	Total
Gross carrying amount	\$ 4,063,983	\$ 99,662	\$ -	\$ -	\$ 4,163,645
Loss allowance (Lifetime ECL)	-	(1,525)	-	-	(1,525)
Amortized cost	<u>\$ 4,063,983</u>	<u>\$ 98,137</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,162,120</u>

December 31, 2018

	Not Past Due	Less than 60 Days	61 to 180 Days	Over 120 Days	Total
Gross carrying amount	\$ 4,913,591	\$ 475,078	\$ -	\$ -	\$ 5,388,669
Loss allowance (Lifetime ECL)	-	(1,525)	-	-	(1,525)
Amortized cost	<u>\$ 4,913,591</u>	<u>\$ 473,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,387,144</u>

The movements of the loss allowance of trade receivables were as follows:

	<u>For the Year Ended December 31</u>	
	2019	2018
Balance at January 1	\$ 1,525	\$ 312,676
Add: Amounts recovered	-	711
Less: Amounts written off	<u>-</u>	<u>(311,862)</u>
Balance at December 31	<u>\$ 1,525</u>	<u>\$ 1,525</u>

b. Other receivables

The average credit period for sales of goods was 30 days, and some customers have credit period of 30 to 45 days after the end of the month. No interest was charged on other receivables. Sufficient collateral was obtained, where appropriate, as a means of mitigating the risk of financial loss from default. The Company uses other publicly available financial information or its own trading records to rate its major customers.

The movements of the loss allowance of other receivables were as follows:

	<u>For the Year Ended December 31</u>	
	2019	2018
Balance at January 1 and December 31	<u>\$ 3,046</u>	<u>\$ 3,046</u>

As of December 31, 2019 and December 31, 2018, the amount of allowance losses did not include individual impairment of other receivables that were subject to risk control due to tight cash flow from customers.

11. INVENTORIES

	<u>December 31</u>	
	2019	2018
Merchandise	\$ 838,085	\$ 442,189
Finished goods	647,797	428,994
Work in process	420,368	195,127
Raw materials	<u>3,153,276</u>	<u>2,601,369</u>
	<u>\$ 5,059,526</u>	<u>\$ 3,667,679</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 was \$41,812,113 thousand and \$35,510,073 thousand, respectively. The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 included of inventory write-downs and obsolescence losses was \$125,778 thousand and \$0.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

a. Investments in subsidiaries

	December 31	
	2019	2018
Accton Century Holding (BVI) Co., Ltd.	\$ 4,136,769	\$ 4,196,819
Edgecore Networks Corp.	1,427,498	1,076,218
Accton Technology Corp. USA	176,257	179,707
Accton Investment Corp. (BVI)	162,752	158,841
SMC Networks Inc.	147,732	177,368
Accton Technology (China) Co., Ltd.	99,731	58,545
E-Direct Corp.	79,419	78,468
Accton Logistics Corp. (USA)	60,459	62,213
Metalligence Technology Corp.	12,324	(21,242)
Nocsys Inc.	2,861	2,919
WayStorm Co Ltd.	-	54
4ipnet, Inc.	(19,279)	21,366
Edgecore USA Corp.	<u>(140,643)</u>	<u>-</u>
	6,145,880	5,991,276
Add: Trade receivables form related parties	141,886	-
Other receivables form related parties	14,009	21,242
Other non-current liabilities	<u>4,027</u>	<u>-</u>
Associates that are not individually material	<u>\$ 6,305,802</u>	<u>\$ 6,012,518</u>

On the date of balance sheet, the percentage of the Company's ownership and voting rights to the subsidiaries as follow:

Name of Subsidiaries	Proportion of Ownership and Voting Rights	
	December 31	
	2019	2018
Accton Century Holding (BVI) Co., Ltd.	100%	100%
Edgecore Networks Corp.	100%	100%
Accton Technology Corp. USA	100%	100%
Accton Investment Corp. (BVI)	100%	100%
SMC Networks Inc.	100%	100%
Accton Technology (China) Co., Ltd.	100%	100%
E-Direct Corp.	100%	100%
Accton Logistics Corp. (USA)	100%	100%
Metalligence Technology Corp.	100%	100%
Nocsys Inc.	100%	100%
WayStorm Co Ltd.	-	28%
4ipnet, Inc.	98%	98%
Edgecore USA Corp.	100%	-

When the Company's portion of investment loss from investments accounted for using equity method of subsidiaries exceeds the equity in the subsidiaries, Edgecore USA Corporation, 4ipnet Inc, and Metalligence Technology Corp., the Company continues to recognize the loss based on the shareholding ratio. As of December 31, 2018 and 2019, the investment credits using the equity method which have been transferred to accounts receivable - related parties and other receivables - reduction of related parties were \$159,922 thousand and \$21,242 thousand, respectively.

In April 2019, WayStorm Co Ltd completed its liquidation procedures.

In August 2019, in order to reorganize the Group's organizational structure, Accton Technology Corporation acquired 100% of Edgecore USA Corporation's shares held by Edgecore Cayman Corporation.

The investments accounted for using the equity method, the Company's share of profit and loss, and other comprehensive income (loss) for the years ended December 31, 2018 and 2019 were calculated based on the associates' financial statements which have been audited.

b. Investments in associates

	December 31	
	2019	2018
Oenix Biomed Co., Ltd.	<u>\$ 14,369</u>	<u>\$ 16,578</u>

On the date of balance sheet, the percentage of the Company's ownership and voting rights to the associates as follow:

Name of Associate	Proportion of Ownership and Voting Rights	
	December 31	
	2019	2018
Oenix Biomed Co., Ltd.	40%	40%

On November 28, 2018, Yang-Ming Innovation & Incubation Limited approved the change of its company name to Oenix Biomed Co., Ltd.

13. PROPERTY, PLANT AND EQUIPMENT

a. Assets used by the Group - 2019

	Buildings	Machinery and Equipment	Molding Equipment	Testing Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost									
Balance at January 1, 2019	\$ 386,092	\$ 237,627	\$ 214,766	\$ 430,812	\$ 36,683	\$ 75,391	\$ 6,915	\$ 48,008	\$ 1,436,294
Additions	6,534	412,146	71,329	34,254	63	16,858	84,024	19,113	644,321
Reductions	<u>(620)</u>	<u>(4,391)</u>	<u>(25,308)</u>	<u>(26,758)</u>	<u>(43)</u>	<u>(9,670)</u>	<u>(3,865)</u>	<u>(2,470)</u>	<u>(73,125)</u>
Balance at December 31, 2019	<u>\$ 392,006</u>	<u>\$ 645,382</u>	<u>\$ 260,787</u>	<u>\$ 438,308</u>	<u>\$ 36,703</u>	<u>\$ 82,579</u>	<u>\$ 87,074</u>	<u>\$ 64,651</u>	<u>\$ 2,007,490</u>
Accumulated depreciation									
Balance at January 1, 2019	\$ 231,594	\$ 137,259	\$ 153,062	\$ 342,406	\$ 25,477	\$ 63,004	\$ 5,582	\$ 29,127	\$ 987,511
Additions	21,871	69,956	25,614	26,391	3,263	8,960	33,936	8,381	198,372
Reductions	<u>(620)</u>	<u>(4,391)</u>	<u>(25,308)</u>	<u>(26,758)</u>	<u>(42)</u>	<u>(9,584)</u>	<u>(3,729)</u>	<u>(2,470)</u>	<u>(72,902)</u>
Balance at December 31, 2019	<u>\$ 252,845</u>	<u>\$ 202,824</u>	<u>\$ 153,368</u>	<u>\$ 342,039</u>	<u>\$ 28,698</u>	<u>\$ 62,380</u>	<u>\$ 35,789</u>	<u>\$ 35,038</u>	<u>\$ 1,112,981</u>
Carrying amounts at December 31, 2019	<u>\$ 139,161</u>	<u>\$ 442,558</u>	<u>\$ 107,419</u>	<u>\$ 96,269</u>	<u>\$ 8,005</u>	<u>\$ 20,199</u>	<u>\$ 51,285</u>	<u>\$ 29,613</u>	<u>\$ 894,509</u>

b. 2018

	Buildings	Machinery and Equipment	Molding Equipment	Testing Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost									
Balance at January 1, 2018	\$ 365,198	\$ 213,281	\$ 188,550	\$ 426,264	\$ 38,705	\$ 71,939	\$ 6,615	\$ 49,374	\$ 1,359,926
Additions	21,116	29,589	30,941	60,640	1,220	7,523	300	5,284	156,613
Reductions	<u>(222)</u>	<u>(5,243)</u>	<u>(4,725)</u>	<u>(56,092)</u>	<u>(3,242)</u>	<u>(4,071)</u>	<u>-</u>	<u>(6,650)</u>	<u>(80,245)</u>
Balance at December 31, 2018	<u>\$ 386,092</u>	<u>\$ 237,627</u>	<u>\$ 214,766</u>	<u>\$ 430,812</u>	<u>\$ 36,683</u>	<u>\$ 75,391</u>	<u>\$ 6,915</u>	<u>\$ 48,008</u>	<u>\$ 1,436,294</u>
Accumulated depreciation									
Balance at January 1, 2018	\$ 214,236	\$ 112,369	\$ 136,105	\$ 378,489	\$ 25,518	\$ 57,379	\$ 4,159	\$ 26,153	\$ 954,388
Additions	17,580	30,133	21,682	20,009	3,201	9,384	1,443	6,837	110,269
Reductions	<u>(222)</u>	<u>(5,243)</u>	<u>(4,725)</u>	<u>(56,092)</u>	<u>(3,242)</u>	<u>(3,759)</u>	<u>-</u>	<u>(3,863)</u>	<u>(77,146)</u>
Balance at December 31, 2018	<u>\$ 231,594</u>	<u>\$ 137,259</u>	<u>\$ 153,062</u>	<u>\$ 342,406</u>	<u>\$ 25,477</u>	<u>\$ 63,004</u>	<u>\$ 5,582</u>	<u>\$ 29,127</u>	<u>\$ 987,511</u>
Carrying amounts at December 31, 2018	<u>\$ 154,498</u>	<u>\$ 100,368</u>	<u>\$ 61,704</u>	<u>\$ 88,406</u>	<u>\$ 11,206</u>	<u>\$ 12,387</u>	<u>\$ 1,333</u>	<u>\$ 18,881</u>	<u>\$ 448,783</u>

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

Buildings	2-56 year
Machinery and equipment	3-8 year
Molding equipment	2-5 year
Testing equipment	2-8 year
Transportation equipment	3-8 year
Office equipment	2-8 year
Leasehold improvements	1-10 year
Other equipment	3-8 year

The buildings held by the Company that consisted of main buildings, electric equipment and construction, are depreciated over their estimated useful lives of 56 years and 9-22 years, respectively, using the straight-line method.

The above items of property, plant and equipment were not used as collateral.

14. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land	\$ 138,895
Buildings	<u>382,137</u>
	<u>\$ 521,032</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 273,646</u>
Depreciation charge for right-of-use assets	
Land	\$ 4,888
Buildings	<u>57,741</u>
	<u>\$ 62,629</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 79,771</u>
Non-current	<u>\$ 429,941</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	2.80%
Buildings	1.35%-2.20%

c. Material lease - in activities and terms

The Company leases land and buildings for the use of plants and offices with lease terms of 5 to 29 years. The lease contract for land located in Republic of China specifies that lease payments will be adjusted on the basis of changes in announced land value prices. The Company does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	<u>\$ 38,091</u>
Total cash outflow for leases	<u>\$ 120,961</u>

The Company leases certain office equipment and other assets 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.

2018

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

	December 31, 2018
Not later than 1 year	\$ 53,162
Later than 1 year and not later than 5 years	91,481
Later than 5 years	<u>35,791</u>
	<u>\$ 180,434</u>

The lease payments and sublease payments recognized in profit or loss were as follows:

	For the Year Ended December 31, 2018
Minimum lease payments	<u>\$ 35,867</u>

15. INTANGIBLE ASSETS

	Computer Software	Patent	Other Deferred Charges	Total
<u>Cost</u>				
Balance at January 1, 2019	\$ 62,435	\$ 5,038	\$ 1,852	\$ 69,325
Additions	44,733	-	-	44,733
Reductions	<u>(24,463)</u>	<u>-</u>	<u>-</u>	<u>(24,463)</u>
Balance at December 31, 2019	<u>\$ 82,705</u>	<u>\$ 5,038</u>	<u>\$ 1,852</u>	<u>\$ 89,595</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2019	\$ 32,401	\$ 4,041	\$ 498	\$ 36,940
Additions	26,299	630	926	27,855
Reductions	<u>(24,463)</u>	<u>-</u>	<u>-</u>	<u>(24,463)</u>
Balance at December 31, 2019	<u>\$ 34,237</u>	<u>\$ 4,671</u>	<u>\$ 1,424</u>	<u>\$ 40,332</u>
Carrying amounts at December 31, 2019	<u>\$ 48,468</u>	<u>\$ 367</u>	<u>\$ 428</u>	<u>\$ 49,263</u>
<u>Cost</u>				
Balance at January 1, 2018	\$ 54,418	\$ 5,038	\$ -	\$ 59,456
Additions	20,807	-	1,852	22,659
Reductions	<u>(12,790)</u>	<u>-</u>	<u>-</u>	<u>(12,790)</u>
Balance at December 31, 2018	<u>\$ 62,435</u>	<u>\$ 5,038</u>	<u>\$ 1,852</u>	<u>\$ 69,325</u>
<u>Accumulated amortization</u>				
Balance at January 1, 2018	\$ 22,076	\$ 3,411	\$ -	\$ 25,487
Additions	22,930	630	498	24,058
Reductions	<u>(12,605)</u>	<u>-</u>	<u>-</u>	<u>(12,605)</u>
Balance at December 31, 2018	<u>\$ 32,401</u>	<u>\$ 4,041</u>	<u>\$ 498</u>	<u>\$ 36,940</u>
Carrying amounts at December 31, 2018	<u>\$ 30,034</u>	<u>\$ 997</u>	<u>\$ 1,354</u>	<u>\$ 32,385</u>

The above items of intangible assets are amortized on a straight-line basis over the estimated useful lives as follows:

Computer software	3-8 years
Patents	5-8 years
Other Deferred Charges	2 years

The above items of intangible assets were not used as collateral.

16. PREPAYMENTS AND OTHER ASSETS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Prepayments		
Excess VAT paid	\$ 62,047	\$ 35,604
Prepayments for software maintenance fee	31,443	35,107
Prepayments for purchases	1,435	8,942
Other	<u>8,065</u>	<u>17,408</u>
	<u>\$ 102,990</u>	<u>\$ 97,061</u>
Other current assets		
Temporary payments	<u>\$ 6,186</u>	<u>\$ 10,129</u>
<u>Non-current</u>		
Others Assets		
Pledged time deposits (Note 32)	<u>\$ 22,000</u>	<u>\$ 15,500</u>

17. BORROWINGS

Long-term borrowings

The borrowings of the Company are as follows:

			<u>December 31</u>	
	<u>Maturity Date</u>	<u>Significant Covenant</u>	<u>2019</u>	<u>2018</u>
Unsecured bank borrowings	2026.06.15	From June 2022, 49 monthly payments of principal and interest	\$ 806,000	\$ -
Unsecured bank borrowings	2026.05.09	From June 2022, 47 monthly payments of principal and interest	100,000	-
Unsecured bank borrowings	2026.04.15	From June 2022, 47 monthly payments of principal and interest	<u>67,000</u>	<u>-</u>
Long-term borrowings			973,000	-
Less: Deferred revenue (Note 27)			<u>(52,361)</u>	<u>-</u>
			<u>\$ 920,639</u>	<u>\$ -</u>

The intervals of effective borrowing rates as of December 31, 2019 were 0.10%-0.15%.

The loan agreements require the maintenance of a current ratio, debt ratio, and interest coverage ratio based on the Company's annual consolidated financial statements. For the year ended December 31, 2019, the Company had met the financial ratio covenants.

18. OTHER LIABILITIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Current</u>		
Other payables		
Temporary receipts from customers	\$ 1,004,039	\$ -
Payable for bonuses	206,243	173,611
Temporary credit and agency receipt	124,149	71,443
Payable for insurance	32,346	21,692
Payable for service	27,447	27,644
Others	<u>365,175</u>	<u>305,768</u>
	<u>\$ 1,759,399</u>	<u>\$ 600,158</u>

19. PROVISIONS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Warranties	<u>\$ 44,380</u>	<u>\$ 143,552</u>
<u>In 2018</u>		
		Warranties
Balance at January 1, 2018		\$ 3,000
Additional provisions recognized		206,100
Amounts written off		<u>(65,548)</u>
Balance at December 31, 2018		<u>\$ 143,552</u>
<u>In 2019</u>		
		Warranties
Balance at January 1, 2019		\$ 143,552
Additional provisions recognized		152,664
Amount written off		<u>(251,836)</u>
Balance at December 31, 2019		<u>\$ 44,380</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Company's obligations for warranties and under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company and the domestic subsidiaries adopted a pension plan under the Labor Pension Act (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. According to local laws, overseas subsidiaries fund certain percentage of pension based on the gross incomes of the local employees. According to the pension plan managed by the Government of China, subsidiaries in China pay retirement insurance, recognized as current expense when contributed.

b. Defined benefit plans

The Company and the domestic subsidiaries adopted the defined benefit plan under the Labor Standard Law, pension benefits are calculated on the basis of an employee's length of service and average monthly salaries for the six-month period prior to 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 committee's name in Bank of Taiwan. 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 sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of funded defined benefit obligation	\$ 288,563	\$ 279,841
Fair value of plan assets	<u>(261,754)</u>	<u>(252,510)</u>
Net defined benefit liability	<u>\$ 26,809</u>	<u>\$ 27,331</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2018	<u>\$ 266,854</u>	<u>\$ (240,812)</u>	<u>\$ 26,042</u>
Service cost			
Current service cost	735	-	735
Net interest expense (income)	<u>3,869</u>	<u>(3,515)</u>	<u>354</u>
Recognized in profit or loss	<u>4,604</u>	<u>(3,515)</u>	<u>1,089</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(6,438)	(6,438)
Actuarial loss - experience adjustments	<u>8,383</u>	-	<u>8,383</u>
Recognized in other comprehensive income	<u>8,383</u>	<u>(6,438)</u>	<u>1,945</u>
Contributions from the employer	-	(1,745)	(1,745)
Balance at December 31, 2018	<u>279,841</u>	<u>(252,510)</u>	<u>27,331</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Service cost			
Current service cost	\$ 1,038	\$ -	\$ 1,038
Net interest expense (income)	<u>3,638</u>	<u>(3,294)</u>	<u>344</u>
Recognized in profit or loss	<u>4,676</u>	<u>(3,294)</u>	<u>1,382</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(8,119)	(8,119)
Actuarial loss - experience adjustments	<u>8,129</u>	<u>-</u>	<u>8,129</u>
Recognized in other comprehensive income	<u>8,129</u>	<u>(8,119)</u>	<u>10</u>
Contributions from the employer	<u>-</u>	<u>(1,914)</u>	<u>(1,914)</u>
Benefits paid	<u>(4,083)</u>	<u>4,083</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 288,563</u>	<u>\$ (261,754)</u>	<u>\$ 26,809</u> (Concluded)

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

	For the Year Ended December 31	
	2019	2018
Operating costs	\$ 118	\$ 84
Selling and marketing expenses	135	86
General and administrative expenses	584	461
Research and development expenses	<u>545</u>	<u>458</u>
	<u>\$ 1,382</u>	<u>\$ 1,089</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 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 bond interest rate 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:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Discount rates	1.10%	1.30%
Expected rates of salary increase	3.50%	3.50%

If possible reasonable change 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:

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Discount rates		
0.25% increase	<u>\$ (8,233)</u>	<u>\$ (8,581)</u>
0.25% decrease	<u>\$ 8,573</u>	<u>\$ 8,950</u>
Expected rates of salary increase		
1.00% increase	<u>\$ 35,215</u>	<u>\$ 36,942</u>
1.00% decrease	<u>\$ (30,660)</u>	<u>\$ (31,934)</u>

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 change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
The expected contributions to the plan for the next year	<u>\$ 957</u>	<u>\$ 872</u>
The average duration of the defined benefit obligation	14 years	15 years

21. EQUITY

a. Ordinary shares

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Number of shares authorized (in thousands)	<u>880,000</u>	<u>880,000</u>
Shares authorized	<u>\$ 8,800,000</u>	<u>\$ 8,800,000</u>
Number of shares issued and fully paid (in thousands)	<u>558,051</u>	<u>557,590</u>
Shares issued	<u>\$ 5,580,514</u>	<u>\$ 5,575,899</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

A total of 87,000 thousand shares of the Company's authorized shares were reserved for the issuance of employee share options.

Exercise of employee share option is the main reason for the share movement.

b. Capital surplus

	December 31	
	2019	2018
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)</u>		
Arising from issuance of ordinary shares	\$ 531,890	\$ 530,159
Arising from treasury share transactions	40,100	31,264
<u>May be used to offset a deficit only</u>		
Arising from employee share options	208,509	206,385
Arising from changes in percentage of ownership interest in subsidiaries (2)	5,509	5,509
<u>May not be used for any purpose</u>		
Arising from employee share options	<u>19,707</u>	<u>21,831</u>
	<u>\$ 805,715</u>	<u>\$ 795,148</u>

- 1) 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 and once a year).
- 2) Such capital surplus arises from the effects of changes in ownership interest in a subsidiary resulted from equity transactions other than actual disposal or acquisition, or from changes in capital surplus of subsidiaries accounted for by using equity method.

A reconciliation of the carrying amount at the beginning and at the end of December 31, 2019 and 2018, for each class of capital surplus was as follows:

	Premium on Issue of Shares	Treasury Share	Employee Share Options - May be used to Offset a Deficit Only	Change in Percentage of Ownership Interest in Subsidiaries	Employee Share Options - May not be used for any Purpose
Balance at January 1, 2018	\$ 520,879	\$ 22,135	\$ 192,251	\$ 5,509	\$ 35,965
Employee share options exercised	9,280	-	13,947	-	(14,134)
Employee share option not exercised	-	-	187	-	-
Cash dividends received by subsidiaries from parent company	<u>-</u>	<u>9,129</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 530,159</u>	<u>\$ 31,264</u>	<u>\$ 206,385</u>	<u>\$ 5,509</u>	<u>\$ 21,831</u>

(Continued)

	Premium on Issue of Shares	Treasury Share	Employee Share Options - May be used to Offset a Deficit Only	Change in Percentage of Ownership Interest in Subsidiaries	Employee Share Options - May not be used for any Purpose
Balance at January 1, 2019	\$ 530,159	\$ 31,264	\$ 206,385	\$ 5,509	\$ 21,831
Employee share options exercised	1,731	-	210	-	(2,124)
Employee share option not exercised	-	-	1,914	-	-
Cash dividends received by subsidiaries from parent company	-	8,836	-	-	-
Balance at December 31, 2019	<u>\$ 531,890</u>	<u>\$ 40,100</u>	<u>\$ 208,509</u>	<u>\$ 5,509</u>	<u>\$ 19,707</u> (Concluded)

c. Retained earnings and dividends policy

Under the dividends 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 a legal reserve of 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 after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 23-6.

Company's Articles stipulate that the dividend policy must comply with present and future development plans and take investment environment, demand of funds, domestic and foreign competition, and shareholders' interests into consideration. The shareholder's compensation can be appropriated by issuance of stock dividends or by payment of cash dividends, with provision that the percentage of cash dividends must exceed 50% of total dividends.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 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, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and in the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 had been approved in the shareholders' meeting on June 13, 2019 and June 13, 2018, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2018	For Year 2017	For Year 2018	For Year 2017
Legal reserve	\$ 295,245	\$ 255,517	\$ -	\$ -
Special reserve	53,817	-	-	-
Cash dividends	2,230,684	2,299,658	3.9984	4.1311

The appropriations of earnings for 2019 had been proposed by the Company's board of directors on March 19, 2020. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 495,049	\$ -
Special reserve	230,752	-
Cash dividends	3,462,734	6.2

The appropriations of earnings for 2019 are subject to the resolution of the shareholders' meeting to be held on June 18, 2020.

d. Special reserves

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 253,675	\$ 253,675
Appropriations in respect of		
Debits to other equity items	<u>53,817</u>	<u>-</u>
Balance at December 31	<u>\$ 307,492</u>	<u>\$ 253,675</u>

e. Others equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ (273,183)	\$ (220,904)
Recognized for the year		
Exchange differences on translating the financial statements of foreign operations	<u>(219,425)</u>	<u>(52,279)</u>
Balance at December 31	<u>\$ (492,608)</u>	<u>\$ (273,183)</u>

2) Unrealized gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ (34,308)	\$ (14,234)
Recognized for the year		
Unrealized gain (loss) - equity instruments	12,389	(20,074)
Reclassification adjustments		
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	<u>(23,717)</u>	<u>-</u>
Balance at December 31	<u>\$ (45,636)</u>	<u>\$ (34,308)</u>

f. Treasury shares

The Company's shares held by its subsidiaries at the end of the reporting periods were as follows.

Name of Subsidiary	Number of Shares Held (In Thousands of Shares)	Carrying Amount	Market Value
<u>December 31, 2019</u>			
Accton Investment	2,210	<u>\$ 50,999</u>	<u>\$ 371,258</u>
<u>December 31, 2018</u>			
Accton Investment	2,210	<u>\$ 50,999</u>	<u>\$ 217,893</u>

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The subsidiaries holding treasury shares, however, retain shareholders' rights, except the rights to participate in any share issuance for cash and to vote.

22. REVENUE

	<u>For the Year Ended December 31</u>	
	2019	2018
Revenue from the sale of goods	<u>\$ 49,953,689</u>	<u>\$ 41,218,729</u>

a. Contract information

Revenue from the sale of goods comes from sales of network communication equipment. Based on the different trading conditions of the network communication equipment, sales of goods are recognized as revenue when they are delivered to the customer's specific location and 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. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

In 2018, the Company has applied IFRS 15 and recognizes the possible sales return and discount of the refundable liabilities. As of December 31, 2019 and 2018, for information on the refund liability which amounted to \$3,179 and \$23,369 thousand, respectively.

b. Contract balances

	December 31, 2019	December 31, 2018	January 1, 2018
Trade receivables (Note 10)	<u>\$ 4,162,120</u>	<u>\$ 5,387,144</u>	<u>\$ 3,746,152</u>
Contract liabilities - current			
Sale of goods	<u>\$ 542,726</u>	<u>\$ 331,042</u>	<u>\$ 213,353</u>

As of December 31, 2019 and 2018, the sales of goods from contract liabilities amounted to \$163,098 thousand and \$75,866 thousand, respectively.

c. Disaggregation of revenue

	For the Year Ended December 31	
	2019	2018
<u>Product</u>		
Switch	\$ 35,016,296	\$ 29,896,730
Network Application	9,040,402	5,830,284
Metro Access Switch	3,268,825	2,674,138
Wireless	1,572,719	1,828,226
Broadband Access	9,323	25,378
Other	<u>1,046,124</u>	<u>963,973</u>
	<u>\$ 49,953,689</u>	<u>\$ 41,218,729</u>
<u>Location</u>		
America	\$ 36,705,987	\$ 30,399,830
Europe	6,787,156	5,234,766
Taiwan (location of the Company)	5,666,887	4,101,421
Asia	793,659	1,482,695
Other	<u>-</u>	<u>17</u>
	<u>\$ 49,953,689</u>	<u>\$ 41,218,729</u>

23. NET PROFIT

a. Net profit

1) Other income

	For the Year Ended December 31	
	2019	2018
Interest income	\$ 69,311	\$ 41,308
Dividends	8,937	9,904
Grant income	2,576	-
Others	<u>63,189</u>	<u>19,600</u>
	<u>\$ 144,013</u>	<u>\$ 70,812</u>

2) Other gains and losses

	For the Year Ended December 31	
	2019	2018
Loss on disposal of subsidiary	\$ (49)	\$ (3,140)
Loss on lease modification	(231)	-
Net loss on fair value changes of financial assets		
Designated as at fair value through profit or loss	(15,295)	(28,339)
Net foreign exchange (losses) gains	(95,174)	53,367
Others	<u>(124)</u>	<u>(2,543)</u>
	<u>\$ (110,873)</u>	<u>\$ 19,345</u>

3) Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on loans	\$ 4,277	\$ 2,818
Interest on lease liabilities	<u>8,936</u>	<u>-</u>
	<u>\$ 13,213</u>	<u>\$ 2,818</u>

4) Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
An analysis of depreciation by function		
Operating costs	\$ 131,866	\$ 33,325
Operating expenses	<u>129,135</u>	<u>76,944</u>
	<u>\$ 261,001</u>	<u>\$ 110,269</u>
An analysis of amortization by function		
Operating costs	\$ 2,218	\$ 1,083
Operating expenses	<u>25,637</u>	<u>22,975</u>
	<u>\$ 27,855</u>	<u>\$ 24,058</u>

5) Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Short-term benefits	\$ 2,629,388	\$ 1,830,140
Post-employment benefits (Note 20)		
Defined contribution plans	66,757	51,985
Defined benefit plans	<u>1,382</u>	<u>1,089</u>
Total employee benefits expense	<u>\$ 2,697,527</u>	<u>\$ 1,883,214</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 637,757	\$ 304,556
Operating expenses	<u>2,059,770</u>	<u>1,578,658</u>
	<u>\$ 2,697,527</u>	<u>\$ 1,883,214</u>

6) Employees' compensation and remuneration of directors

The Company accrued employees' compensation and remuneration of directors at rates of no less than 1%-11.25% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2019 and 2018, which have been approved by the Company's board of directors on March 19, 2020 and March 21, 2019, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Employees' compensation	11.25%	11.25%
Remuneration of directors	0.7%	1.5%

Amount

	<u>For the Year Ended December 31</u>			
	<u>2019</u>		<u>2018</u>	
	<u>Cash</u>	<u>Share</u>	<u>Cash</u>	<u>Share</u>
Employees' compensation	\$ 741,109	\$ -	\$ 433,062	\$ -
Remuneration of directors	45,000	-	57,742	-

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors 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 resolved by the Company's board of directors in 2020 and 2019 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

24. INCOME TAXES

a. Income tax recognized in profit or loss

Major components of tax expense recognized in profit or loss:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Current tax		
In respect of the current year	\$ 852,958	\$ 440,714
Deferred tax		
In respect of the current year	(1,923)	(32,786)
Effect of tax rate change	-	(1,738)
Income tax expense recognized in profit or loss	<u>\$ 851,035</u>	<u>\$ 406,190</u>

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

	<u>For the Year Ended December 31</u>	
	2019	2018
Profit before tax from operations	<u>\$ 5,801,530</u>	<u>\$ 3,358,639</u>
Income tax expense calculated at the statutory rate	\$ 1,160,306	\$ 671,728
Income tax on unappropriated earnings	18,651	-
Nondeductible items expenses in determining taxable income	(263,034)	(223,937)
Investment credits	(64,888)	(39,863)
Adjustments to deferred tax attributable to change in tax rates	<u>-</u>	<u>(1,738)</u>
Income tax expense recognized in profit or loss	<u>\$ 851,035</u>	<u>\$ 406,190</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. Current tax liabilities

	<u>December 31</u>	
	2019	2018
Current tax liabilities		
Income tax payable	<u>\$ 749,646</u>	<u>\$ 382,264</u>

c. Deferred tax assets

The movements of deferred tax assets were as follows:

For the year ended December 31, 2019

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred tax assets</u>			
Temporary difference	<u>\$ 44,371</u>	<u>\$ 1,923</u>	<u>\$ 46,294</u>

For the year ended December 31, 2018

	Balance, Beginning of Year	Recognized in Profit or Loss	Balance, End of Year
<u>Deferred tax assets</u>			
Temporary difference	<u>\$ 9,847</u>	<u>\$ 34,524</u>	<u>\$ 44,371</u>

- d. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets

	<u>December 31</u>	
	2019	2018
Deductible temporary differences	<u>\$ 438,263</u>	<u>\$ 452,994</u>

- e. Unrecognized deferred tax liabilities associated with investments

As of December 31, 2018 and 2019, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized.

- f. Income tax assessments

The tax authorities have examined income tax returns of the Company through 2017.

25. EARNINGS PER SHARE

Unit: NTS Per Share

	<u>For the Year Ended December 31</u>	
	2019	2018
Basic earnings per share	<u>\$ 8.91</u>	<u>\$ 5.33</u>
Diluted earnings per share	<u>\$ 8.76</u>	<u>\$ 5.23</u>

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

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	2019	2018
Earnings used in the computation of basic and diluted earnings per share	<u>\$ 4,950,495</u>	<u>\$ 2,952,449</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<u>For the Year Ended December 31</u>	
	2019	2018
Weighted average number of ordinary shares in computation of basic earnings per share	555,633	554,406
Effect of potentially dilutive ordinary shares:		
Employee share option	4,056	5,145
Bonus to employees	<u>5,192</u>	<u>5,102</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>564,881</u>	<u>564,653</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. SHARE-BASED PAYMENT ARRANGEMENTS

Employee share option plan of the Company

Qualified employees of the Company and its subsidiaries were granted 20,000 thousand option on September 4, 2014, 20,000 thousand options on July 20, 2010 and 20,000 thousand options on October 24, 2007. Each option entitles the holder to subscribe for one ordinary shares of the Company. The options granted are valid for 10 years and exercisable at certain percentages after the second anniversary from the grant date.

Information on employee share options was as follows:

	For the Year Ended December 31					
	2014		2010		2008	
	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>2018</u>						
Balance at January 1	5,609	\$ 15.40	2,034	\$ 9.30	270	\$ 13.00
Options exercised	(1,821)	14.70-15.40	(1,044)	8.90-9.30	(230)	13.00
Options canceled	-	-	-	-	(40)	13.00
Balance at December 31	<u>3,788</u>	14.70	<u>990</u>	8.90	-	-
<u>2019</u>						
Balance at January 1	3,788	\$ 14.70	990	\$ 8.90	-	\$ -
Options exercised	(397)	14.20-14.70	(64)	8.60-8.90	-	-
Options canceled	(410)	14.20-14.70	-	-	-	-
Balance at December 31	<u>2,981</u>	14.20	<u>926</u>	8.60	-	-

The number of outstanding share options and the exercise prices had been adjusted to reflect the share dividend and the cancellation of ordinary shares in accordance with the plans.

Information about outstanding options as of December 31, 2019 was as follows:

Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number Outstanding (In Thousands)	Expected Remaining Contractual Life (In Years)	Weighted- average Exercise Price (NT\$)	Number Exercisable (In Thousands)	Weighted- average Exercise Price (NT\$)
<u>2014 option plan</u>					
\$ 14.20	<u>2,981</u>	4.69	\$ 14.20	<u>2,981</u>	\$ 14.20
<u>2010 option plan</u>					
\$ 8.60	<u>926</u>	0.55	\$ 8.60	<u>926</u>	\$ 8.60

Options granted in 2014, 2010 and 2008 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	2014	2010	2008
Grant-date share price (\$)	\$ 17.90	\$ 15.25	\$ 13.50
Exercise price (\$)	17.90	15.25	13.50
Expected volatility	22.30%	46.56%	47.53%
Expected life (years)	10 year	3.25 year	3-3.25 year
Expected dividend yield	-	-	-
Risk-free interest rate	1.63%	0.80%	2.544%

The grant-date share fair price was measured by market-based method.

Expected volatility was based on the same industry company historical share price volatility over the past 1 year.

Compensation cost recognized was none for year ended December 31, 2019 and 2018.

27. GOVERNMENT GRANTS

As of December 31, 2019, the Company obtained a government preferential interest rate loan of \$973,000 thousand from the “Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan” for capital expenditure and operating turnover. The loan will be settled in three to seven years through installments. At the time of borrowing, the market interest rate was 1.29%. Based on this, the fair value of borrowing is estimated to be \$918,063 thousand. The difference between the amount obtained and the fair value of the borrowing is \$54,938 thousand, which is regarded as a government grant of low interest loan and recognized as deferred income. In 2019, the Company recognized other income of \$2,576 thousand, the interest expense of the loan of \$2,989 thousand, payment of interest of \$352 thousand and interest payable of \$61 thousand.

If the Company fails to meet the key points of the above project during the loan period, and the National Development Fund terminates the government grant, then the Company will pay the original interest rate plus the annual interest rate.

28. DISPOSAL OF SUBSIDIARY

a. On April 28, 2019, the Company completed the liquidation of its subsidiary, WayStorm Co. Ltd.

1) Analysis of assets and liabilities on the date of liquidation

	WayStorm Co., Ltd.
Current assets	
Cash and cash equivalents	\$ 50
Prepayments	<u>4</u>
Net assets disposed of	<u>\$ 3,140</u>

2) Loss on liquidation of subsidiary

	WayStorm Co., Ltd.
Consideration received	\$ 5
Net assets disposed of	<u>(54)</u>
Loss on disposal	<u>\$ (49)</u>

b. On March 27, 2018, the Company completed the liquidation of its subsidiary, Accton Wireless Broadband Corporation.

1) Analysis of assets and liabilities on the date of liquidation

	Accton Wireless Broadband Corp.
Current assets	
Prepayments	\$ 3,140
Net assets disposed of	<u>\$ 3,140</u>

2) Loss on liquidation of subsidiary

	Accton Wireless Broadband Corp.
Consideration received	\$ -
Net assets disposed of	<u>(3,140)</u>
Loss on disposal	<u>\$ (3,140)</u>

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities have necessary financial resources and operational plan to cover all required funds for the next 12 months, including capital expenditures, research and development plan, debt repayment and dividends, etc.

Based on the Company's business model and working capital sources, the Company has no significant changes except for shareholders' share dividends and exercise of employee share options.

30. FINANCIAL INSTRUMENTS

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

December 31, 2019

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets at amortized cost					
Bond investment	\$ 15,912	\$ -	\$ 15,049	\$ -	\$ 15,049

December 31, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets at amortized cost					
Bond investment	\$ 16,010	\$ -	\$ 15,165	\$ -	\$ 15,165

The Level 2 of fair values measurement is based on the reference price of the issuing bank.

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				
Mutual funds	\$ 315,232	\$ -	\$ -	\$ 315,232
Unlisted shares	-	-	89,731	89,731
Total	<u>\$ 315,232</u>	<u>\$ -</u>	<u>\$ 89,731</u>	<u>\$ 404,963</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Listed shares	<u>\$ 123,235</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,235</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Unlisted shares	\$ _____ -	\$ _____ -	\$ <u>107,022</u>	\$ <u>107,022</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Listed shares	\$ <u>144,138</u>	\$ _____ -	\$ _____ -	\$ <u>144,138</u>

There were no transfers between Level 1 and 2 for the years ended 2019 and 2018.

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

For the year ended December 31, 2019

Financial Assets	Financial Assets at FVTOCI Equity Instruments
Balance at January 1, 2019	\$ 107,022
Recognized in profit or loss (included in other gains and losses)	<u>(17,291)</u>
Balance at December 31, 2019	\$ <u>89,731</u>

For the year ended December 31, 2018

Financial Assets	Financial Assets at FVTOCI Equity Instruments
Balance at January 1, 2018	\$ 141,488
Recognized in profit or loss (included in other gains and losses)	(30,805)
Sales	<u>(3,661)</u>
Balance at December 31, 2018	\$ <u>107,022</u>

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

The fair values of unlisted equity securities for both foreign and domestic were determined using market approach based on the transaction price of the comparable standard and financial information of the underlying company and the market peer. Market multipliers such as price-to-earnings ratio, price book ratio, price-to-sales ratio or other financial ratios are used to analyze and evaluate.

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Price book ratio	1.415-4.901	1.105-8.160
Price-to-sales ratio	0.67-1.93	0.76-5.33
Liquidity discount	20%	20%

c. Categories of financial instruments

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
<u>Financial assets</u>		
Financial assets at FVTPL		
Mandatorily classified as at FVTPL	\$ 404,963	\$ 107,022
Financial assets at amortized cost (Note 1)	16,571,172	12,446,717
Financial assets at FVTOCI		
Investments in equity instruments	123,235	144,138
<u>Financial liabilities</u>		
Amortized cost (Note 2)	14,695,721	11,339,160

Note 1: The balances include financial assets at amortized cost, which comprise cash and cash equivalents, trade receivables (include related parties), other receivables (include related parties), time deposits with original maturity of more than 3 months, bond investments, pledged time deposits, and refundable deposits.

Note 2: The balances included financial liabilities measured at amortized cost, which comprise trade payables (include related parties), payables on construction and equipment, other payables (include related parties), long-term borrowings and guarantee deposits.

d. Financial risk management objectives and policies

The Company's financial risk management objective is to manage all risks that are relevant to operating activities, like foreign currency risk, interest rate risk, credit risk and liquidity risk. The Company strives to identify, assess and avoid the uncertainty in market to minimize the potential adverse impact of market. Important financial activities of the Company are approved by the board of directors and reviewed for compliance with internal controls and relevant regulations and management practices. The Company abides by the relevant financial procedures on overall financial risk management and division of responsibilities when implementing financial plans.

The Company's policies on market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk are as follows:

1) Market risk

The Company's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below). The Company entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

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

a) Foreign currency risk

The Company and several subsidiaries' operating activities are partially denominated in foreign currencies and apply natural hedge. The purpose of the Company's management of the foreign currency risk is to hedge the risk instead of making a profit.

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

Sensitivity analysis

The Company was mainly exposed to the USD.

The following table details the Company's sensitivity to a 1% increase and decrease in New Taiwan dollars (the functional currency) against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and forward contracts, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with New Taiwan dollars strengthen 1% against the relevant currency. For a 1% weakening of New Taiwan dollars 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	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$ (42,106)	\$ (21,188)

b) Interest rate risk

Interest rates of the Company's long-term bank loans are floating, and changes in interest rates would affect the future cash flows but not the fair value.

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

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 5,481,820	\$ 1,452,105
Financial liabilities	509,712	-
Cash flow interest rate risk		
Financial assets	2,005,388	1,062,326
Financial liabilities	920,639	-

Sensitivity analysis

The sensitivity analysis below was based on the Company's exposure to interest rates for non-derivative instruments at the end of the reporting period.

If interest rates had been 0.1% basis points 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 decrease/increase by \$1,085 thousand and \$1,062 thousand, respectively, which was mainly attributable to the Company's exposure to interest rates.

c) Other price risk

The Company was exposed to equity price risk through its investments in listed equity securities. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments. The Company's equity price risk was mainly concentrated on equity instruments operating in electronic industry quoted in the Taiwan Stock Exchange and Greta Securities Market.

Sensitivity analysis

The sensitivity analyses below were determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 0.1% higher/lower, pre-tax profit for the years ended December 31, 2019 and 2018 would have increased/decreased by \$4,050 thousand and \$1,070 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL, and the post-tax other comprehensive income for the year ended December 31, 2019 and 2018 would have increased/decreased by \$1,232 thousand and \$1,441 thousand, respectively, as a result of the changes in fair value of financial assets at FVTOCI.

2) Credit risk

Credit risk refers to the risk that a counterpart will default on its contractual obligations and result in financial loss to the Company. At the end of the reporting period, the Company may have a financial loss due to the default on obligation from counterparts, and the maximum exposure to credit risk is the trade receivables from counterparts.

In order to mitigate credit risk, the Company has made the management of credit policy to ensure that appropriate action is taken to recover overdue receivables. In addition, the Company reviews the recoverable amount of each trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Company considers the credit risk is significantly reduced.

The Company's accounts receivable outstanding arose from trading with its customers spreading across diverse industries and geographical areas. The balances are monitored on an ongoing basis by evaluating the customers' financial conditions.

Under its credit policy, the Company evaluates the credit grade of new customers individually before determining payment and other transaction terms. For this evaluation, the Company acquires external information from credit rating agencies and banks. If this information is not available, the Company uses other publicly available financial information and its own trading records to rate its customers. The Company reviews credits and trades of each customer regularly and does not trade with the customers that do not meet the credit grade in advance.

The Company estimated the allowance for impairment loss recognized on trade receivables, other receivables and investments.

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 short-term bank loan facilities set out in (b) below.

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

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been 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 included 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.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	Total
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 9,606,244	\$ 2,835,683	\$ 1,332,339	\$ 816	\$ 13,775,082
Lease liabilities	3,120	7,682	79,575	498,823	589,200
Variable interest rate liabilities	<u>117</u>	<u>230</u>	<u>1,037</u>	<u>977,717</u>	<u>979,101</u>
Noninterest bearing	<u>\$ 9,609,481</u>	<u>\$ 2,843,595</u>	<u>\$ 1,412,951</u>	<u>\$ 1,477,356</u>	<u>\$ 15,343,383</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>\$ 90,377</u>	<u>\$ 322,838</u>	<u>\$ 44,155</u>	<u>\$ 35,791</u>	<u>\$ 35,791</u>	<u>\$ 60,248</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	Total
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	<u>\$ 8,124,920</u>	<u>\$ 2,943,563</u>	<u>\$ 269,851</u>	<u>\$ 826</u>	<u>\$ 11,339,160</u>

b) Financing facilities

	<u>December 31</u>	
	2019	2018
Unsecured bank overdraft facility, reviewed annually and payable at call:		
Amount used	\$ 973,000	\$ -
Amount unused	<u>6,125,970</u>	<u>4,913,945</u>
	<u>\$ 7,098,970</u>	<u>\$ 4,913,945</u>

The Company does not have bank loan facilities which may be extended by mutual agreement on December 31, 2019 and 2018.

31. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

a. Related party name and relationship

<u>Related Party Name</u>	<u>Relationship with the Company</u>
Accton Logistics Corporation	Subsidiary
SMC Network, Inc.	Subsidiary
Accton Technology Corporation (USA)	Subsidiary
Accton Century Holding (BVI) Co., Ltd.	Subsidiary
Metalligence Technology Corp.	Subsidiary
Edgecore Networks Corp.	Subsidiary
E-Direct Corp.	Subsidiary
4ipnet, Inc.	Subsidiary
Edgecore USA Corporation	Subsidiary
Edgecore Americas Networking	Investment accounted for using the equity method indirect subsidiary
Joy Technology (Shenzhen) Co., Ltd.	Investment accounted for using the equity method indirect subsidiary
Accton Technology Co., Ltd.	Investment accounted for using the equity method indirect subsidiary
Edgecore Cayman Corp.	Investment accounted for using the equity method indirect subsidiary
Oenix Biomed Co., Ltd.	Associate

b. Sales

Line Item	Related Party Name	<u>December 31</u>	
		2019	2018
Sales	Edgecore USA Corporation	\$ 13,734,453	\$ 9,830,002
	Edgecore Networks Corp.	4,995,788	3,677,513
	Other Subsidiaries	<u>4,111,385</u>	<u>1,406,920</u>
		<u>\$ 22,841,626</u>	<u>\$ 14,914,435</u>

The price of the Company's sales to related parties is based on the agreed terms; therefore, there is no appropriate transaction object to compare.

c. Purchase

Line Item	Related Party Name	<u>December 31</u>	
		2019	2018
Purchase	Joy Technology (Shenzhen) Co., Ltd.	\$ 29,089,029	\$ 27,956,055
	Other Subsidiaries	<u>1,018,507</u>	<u>321,811</u>
		<u>\$ 30,107,536</u>	<u>\$ 28,277,866</u>

The price of the Company's sales to related parties is based on the agreed terms, therefore there is no appropriate transaction object to compare. The general payment terms are 45 to 90 days. The processing

transaction between the Company and related parties is based on the agreed terms, therefore there is no appropriate transaction object to compare.

d. Operating expense

Line Item	Related Party Name	December 31	
		2019	2018
Operating expense	Edgecore Networks Corp.	\$ 394,276	\$ 593,970
	Other Subsidiaries	<u>112,325</u>	<u>83,609</u>
		<u>\$ 506,601</u>	<u>\$ 677,579</u>

The Company's operating expenses are mainly service fees.

The service fees between the Company and related parties is based on the agreed terms, therefore there is no appropriate transaction object to compare.

e. Non-operating income and expenses

Line Item	Related Party Name	December 31	
		2019	2018
Other revenue	Subsidiary	<u>\$ 10,457</u>	<u>\$ 9,587</u>

The non-operating transactions between the Company and related parties are based on the conditions agreed by both parties; therefore, there is no other appropriate transaction to compare.

f. Receivables from related parties

Line Item	Related Party Name	December 31	
		2019	2018
Trade receivables from related parties	Edgecore USA Corporation.	\$ 2,865,142	\$ 2,863,632
	Accton Logistics Corporation	645,248	555,708
	Edgecore Networks Corp.	385,927	220,577
	Other Subsidiaries	42,717	64,184
	Transfer of investment loans using the equity method	(141,886)	-
	Transfer to other receivables from related parties	<u>(14,769)</u>	<u>(41,732)</u>
		<u>\$ 3,782,379</u>	<u>\$ 3,662,369</u>
Other receivables from related parties	Joy Technology (Shenzhen) Co., Ltd.	\$ 515,140	\$ 739,011
	Accton Century Holding (BVI) Co., Ltd.	446,292	-
	Other Subsidiaries	66,502	63,821
	Transfer of investment loans using the equity method	<u>(14,009)</u>	<u>(21,242)</u>
		<u>\$ 1,013,925</u>	<u>\$ 781,590</u>

The Company's partial collection conditions for foreign related parties are 60 days to 90 days from the shipping point. It is 60 days to 75 days for domestic related parties.

g. Payables to related parties

Line Item	Related Party Name	December 31	
		2019	2018
Trade payables to related parties	Joy Technology (Shenzhen) Co., Ltd.	\$ 6,714,543	\$ 7,315,982
	Edgecore Networks Corp.	<u>223,294</u>	<u>107,689</u>
		<u>\$ 6,937,837</u>	<u>\$ 7,423,671</u>
Other payables to related Parties	Accton Technology Corporation (USA)	\$ 124,783	\$ 89,325
	Accton Technology Co., Ltd.	27,250	23,034
	Edgecore Networks Corp.	8,282	91,771
	Other Subsidiaries	<u>5,162</u>	<u>4,318</u>
	<u>\$ 165,477</u>	<u>\$ 208,448</u>	

The general payment terms of the Company are 45 to 90 days.

h. Acquisitions of property, plant and equipment

Related Party Name	Purchase Price	
	2019	2018
Subsidiary	<u>\$ 6,889</u>	<u>\$ 3,904</u>

The transaction of property, plant and equipment between the Company and related parties is based on the agreed terms; therefore, there is no appropriate transaction object to compare.

i. Disposals of property, plant and equipment

Related Party Name	Proceeds Price	
	2019	2018
Subsidiary	<u>\$ 86</u>	<u>\$ 3,211</u>

The transaction of property, plant and equipment between the Company and related parties is based on the agreed terms; therefore, there is no appropriate transaction object to compare.

j. Purchase of long-term investment on stocks

Related Party Name	Proceeds Price	
	2019	2018
Edgecore Cayman Corp.	<u>\$ 35,316</u>	<u>\$ -</u>

In order to reorganize the Company's organizational structure, the Company acquired 100% of Edgecore USA Corporation's shares which were held by Edgecore Cayman Corp. in August 2019.

k. Compensation of key management personnel

	<u>For the Year Ended December 31</u>	
	2019	2018
Short-term employee benefits	\$ 95,483	\$ 122,476
Termination benefits	<u>674</u>	<u>692</u>
	<u>\$ 96,157</u>	<u>\$ 123,168</u>

The compensation of directors and other key management personnel was determined by the Compensation Committee on the basis of individual performance and market trends.

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral of tariff:

	<u>December 31</u>	
	2019	2018
Pledge time deposits (classified as other non-current assets-other)	<u>\$ 22,000</u>	<u>\$ 15,500</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

The following information was aggregated by the foreign currencies other than functional currencies of the Company entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2019

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 535,278	29.98 (USD:NTD)	\$ 16,047,633
<u>Financial liabilities</u>			
Monetary items			
USD	394,830	29.98 (USD:NTD)	11,837,011

December 31, 2018

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 408,682	30.715 (USD:NTD)	\$ 12,552,679
<u>Financial liabilities</u>			
Monetary items			
USD	339,701	30.715 (USD:NTD)	10,433,909

The significant realized and unrealized foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2019		2018	
Foreign Currencies	Exchange Rate	Net Foreign Exchange Gain (Loss)	Exchange Rate	Net Foreign Exchange Gain (Loss)
USD	30.912 (USD:NTD)	<u>\$ (95,174)</u>	30.1490(USD:NTD)	<u>\$ 53,367</u>

34. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others (None)
- 2) Endorsements/guarantees provided (Table 1)
- 3) Marketable securities held (excluding investment in subsidiaries, associates and joint controlled entities) (Table 2)
- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital (Table 3)
- 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 4)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
- 9) Trading in derivative instruments. (None)
- 10) Information on investees (excluding any investee company in mainland China) (Table 6)

b. 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 period, repatriations of investment income, and limit on the amount of investment in the mainland China area. (Table 7)
- 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. Refer to Note 4 and the Company's consolidated Financial Statement for 2019's Note 6.

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guaranteee		Limits on Endorsement/ Guarantee Given on Behalf of Each Party (Note 3)	Maximum Amount Endorsed/ Guaranteed During the Period	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Relationship (Note 2)										
0	Accton Technology Corporation	Accton Technology Co., Ltd.	2	\$ 1,280,039	\$ 149,900 (USD 5,000)	\$ 149,900 (USD 5,000)	\$ -	\$ -	1.17	\$ 3,840,116	Yes	No	Yes
1	Edgecore Network Corporation	Edgecore USA Corporation	4	1,468,783	299,800 (USD 10,000)	299,800 (USD 10,000)	163,391	-	20.41	1,468,783	No	No	No
2	Edgecore USA Corporation	Accton Logistics Corporation	4	41,954	26,982 (USD 900)	26,982 (USD 900)	26,982	-	64.31	41,954	No	No	No

Note 1: The description of the number column is as follows:

- 1) Lender is numbered as 0.
- 2) Investee is numbered sequentially from 1.

Note 2: The following seven items are relationship of endorsement guarantors and endorsed objects:

- 1) The company with business contact.
- 2) The company directly and indirectly holds more than 50% of the shares of the voting rights.
- 3) Directly and indirectly holds more than 50% of the shares of the voting rights to the company.
- 4) The company directly and indirectly holds more than 90% of the shares of the voting rights.
- 5) The company that is mutually protected under contractual requirements based on the needs of the contractor.
- 6) The company that is endorsed by its all-funded shareholders in accordance with its shareholding ratio because of the joint investment relationship.
- 7) Performance guarantees for the sale of presale contracts under the Consumer Protection Act.

Note 3: The limit on amount of endorsement and guarantee is explained below:

- 1) In accordance with the company's procedure for endorsement and guarantee, the ceiling on total endorsement and guarantee to all parties is 30% of its net sales value; the ceiling on single guarantee object to all parties is 10% of its net assets value.
- 2) The policy for endorsement and guarantee granted by subsidiaries to the company whose voting shares are directly or indirectly wholly-owned is not limited by the above description.

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars and Foreign Currency)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	
Accton Technology Corporation	Fund UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,625	\$ 111,152	-	-
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,139	204,080	-	204,080
	Shares First Hi-Tec Enterprise Co., Ltd.	-	Financial assets at fair value through other comprehensive income - current	1,496	61,168	2%	61,168
	Cathay financial holding Co., Ltd. - preference shares	-	Financial assets at fair value through other comprehensive income - current	830	53,286	-	53,286
	Clientron Corp.	-	Financial assets at fair value through other comprehensive income - current	289	6,560	-	6,560
	Cathay financial holding Co., Ltd. - preference share B	-	Financial assets at fair value through other comprehensive income - current	35	2,221	-	2,221
	TechnoConcepts Inc.	-	Financial assets at fair value through other comprehensive income - current	597	-	-	-
	Worldgate Communication, Inc.	-	Financial assets at fair value through other comprehensive income - non-current	3,200	-	-	-
	Bond Industrial and Commercial Bank of China Limited - New York Branch	-	Financial assets at amortized cost - current	-	15,912	-	15,912
	Shares Pershing Systems Corp.	-	Financial assets at fair value through profit or loss - non-current	2,298	47,781	9%	47,781
	i Pass Corporation	-	Financial assets at fair value through profit or loss - non-current	2,000	39,000	2%	39,000
	Linker Corporation	-	Financial assets at fair value through profit or loss - non-current	469	-	2%	-
	Global Channel Resource Pte. Ltd.	-	Financial assets at fair value through profit or loss - non-current	500	-	7%	-
	Wave-In Communication Inc.	-	Financial assets at fair value through profit or loss - non-current	1,138	2,950	15%	2,950
	Stratus Medicine Inc.	-	Financial assets at fair value through profit or loss - non-current	833	-	4%	-
	Zentara Systems, Inc.	-	Financial assets at fair value through profit or loss - non-current	400	-	3%	-
	Innovium, Inc.	-	Financial assets at fair value through profit or loss - non-current	152	-	-	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	
Acccon Technology Corporation	Xingtera technology optimizes	-	Financial assets at fair value through profit or loss - non-current	478	\$ -	1%	-
	Midfin Systems Inc.	-	Financial assets at fair value through profit or loss - non-current	1,084	-	4%	-
Acccon Investment Corp. (BVI)	MITAC Information Technology Corp.	-	Financial assets at fair value through profit or loss - non-current	300	-	-	-
	Clop Technologies Pte. Ltd.	-	Financial assets at fair value through profit or loss - non-current	2,000	-	9%	-
Acccon Investment Corp. (BVI)	Acute Technology Corp.	-	Financial assets at fair value through profit or loss - non-current	2,650	-	15%	-
	Microlinks Technology Corp.	-	Financial assets at fair value through profit or loss - non-current	138	-	2%	-
Acccon Investment Corp. (BVI)	Peracom Networks, Inc.	-	Financial assets at fair value through profit or loss - non-current	2,931	-	-	-
	MoBitS Electronics, Inc.	-	Financial assets at fair value through profit or loss - non-current	387	-	5%	-
Acccon Investment Corp. (BVI)	VODTEL Communication Inc.	-	Financial assets at fair value through profit or loss - non-current	122	-	3%	-
	Shares Acccon Technology Corporation	Parent company	Financial assets at fair value through other comprehensive income - current	2,210	50,999	-	371,258
Acccon Investment Corp. (BVI)	Bond HSBC Holdings PLC,	-	Financial assets at amortized cost - non-current	-	30,292	-	30,292
	Shares Big switch Networks Inc.	-	Financial assets at fair value through profit or loss - non-current	374	9,875	-	9,875
Acccon Investment Corp. (BVI)	Volterra, Inc. -preference share A	-	Financial assets at fair value through profit or loss - non-current	319	15,452	1%	15,452
	Volterra, Inc. -preference share B	-	Financial assets at fair value through profit or loss - non-current	34	1,655	-	1,655
Acccon Investment Corp. (BVI)	Dustphotronics, Inc. -preference share A	-	Financial assets at fair value through profit or loss - non-current	38	19,730	-	19,730
	Dustphotronics, Inc. -preference share B	-	Financial assets at fair value through profit or loss - non-current	5	2,348	-	2,348
Acccon Investment Corp. (BVI)	Astera Labs, Inc. -preference share A-I	-	Financial assets at fair value through profit or loss - non-current	490	-	-	-
	Astera Labs, Inc. -preference share B	-	Financial assets at fair value through profit or loss - non-current	64	3,859	-	3,859
Acccon Investment Corp. (BVI)	Tallac Networks, Inc.	-	Financial assets at fair value through profit or loss - non-current	254	-	-	-
	Aspac Communications, Inc.	-	Financial assets at fair value through profit or loss - non-current	120	-	-	-
Acccon Investment Corp. (BVI)	Kai Chieh International Investment Ltd.	-	Financial assets at fair value through profit or loss - non-current	461	-	-	-
	MoBitS Electronics, Inc.	-	Financial assets at fair value through profit or loss - non-current	232	-	3%	-
Acccon Investment Corp. (BVI)	Fulfillment Plus Inc.	-	Financial assets at fair value through profit or loss - non-current	500	-	2%	-
	@Network, Inc.	-	Financial assets at fair value through profit or loss - non-current	100	-	-	-
Acccon Investment Corp. (BVI)	Teletronics International, Inc.	-	Financial assets at fair value through profit or loss - non-current	286	-	2%	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	
Accion Investment Corp. (BVI)	Itelco Communication, Inc. - preference shares	-	Financial assets at fair value through profit or loss - non-current	202	\$ -	-	-
	Network Excellence For Enterprises Corp. - preference shares	-	Financial assets at fair value through profit or loss - non-current	600	-	-	-
	Caspain Networks, Inc.	-	Financial assets at fair value through profit or loss - non-current	2	-	-	-
	Trueteel Communications Inc.	-	Financial assets at fair value through profit or loss - non-current	600	-	3%	-
	Voipack Corporation - preference shares	-	Financial assets at fair value through profit or loss - non-current	1,075	-	-	-
	Ip Unity - preference shares	-	Financial assets at fair value through profit or loss - non-current	68	-	-	-
	Peracom Networks, Inc.	-	Financial assets at fair value through profit or loss - non-current	2,629	-	-	-
	Discovery Times Ltd.	-	Financial assets at fair value through profit or loss - non-current	-	-	-	-
	Engim, Inc. - preference shares A	-	Financial assets at fair value through profit or loss - non-current	455	-	-	-
	Engim, Inc. - preference shares A-1	-	Financial assets at fair value through profit or loss - non-current	2,308	-	-	-
	Softfoundry International Pte. Ltd.	-	Financial assets at fair value through profit or loss - non-current	833	-	-	-
	MITAC Information Technology Corp.	-	Financial assets at fair value through profit or loss - non-current	15	-	-	-
	E2O Communications Inc.	-	Financial assets at fair value through profit or loss - non-current	30	-	-	-
	Bond IND & COMM Bk Cim/Dubai	-	Financial assets at amortized cost - current	-	9,476	-	9,476
	Shares @ Network, Inc.	-	Financial assets at fair value through profit or loss - non-current	167	-	-	-
	3CX Inc.	-	Financial assets at fair value through profit or loss - non-current	375	-	-	-
	Discovery Times Alpha Ltd.	-	Financial assets at fair value through profit or loss - non-current	-	-	-	-
	Teimax Communications Corp.	-	Financial assets at fair value through profit or loss - non-current	613	-	-	-
	Programmable Silicon Solutions	-	Financial assets at fair value through profit or loss - non-current	143	-	-	-
	Aviva Communications INC. - preference shares	-	Financial assets at fair value through profit or loss - non-current	30	-	-	-
Conveigh Inc.	-	Financial assets at fair value through profit or loss - non-current	765	-	-	-	
Fortress	-	Financial assets at fair value through profit or loss - non-current	-	-	-	-	
ACCTON ASIA INVESTMENT CORP. (BVI)	Shares	-	Financial assets at fair value through profit or loss - non-current	-	13,170	18%	13,170
	Zhuohai Jinfangda Technology Co., Ltd.	-	Financial assets at fair value through profit or loss - non-current	-	-	-	-
Noesys Inc.	Shares Noctfluent (HK) Limited	-	Financial assets at fair value through profit or loss - non-current	-	-	19%	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2019			Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	
Edgecore Networks Corp.	Shares ALFA Network Inc.	-	Financial assets at fair value through profit or loss - non-current	969	\$ 26,970	19%	\$ 26,970
	Big Switch Networks, Inc.	-	Financial assets at fair value through profit or loss - non-current	150	3,950	-	3,950
SMC NETWORKS, INC.	Shares Humax Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	369	50,210 (USD 1,675)	-	50,210 (USD 1,675)
	Wedge Networks	-	Financial assets at fair value through profit or loss - non-current	250	-	1%	-

Note 1: As of December 31, 2019 the above marketable securities had not been pledged or mortgaged.

Note 2: Information on subsidiaries and associates refer to Table 7 and 8.

(Concluded)

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$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	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount (Note)	Gain (Loss) on Disposal	Shares
Accton Technology Corporation	UPAMC James Bond Money Market	Financial assets at fair value through profit or loss - current	-	-	46,216	\$ -	39,591	\$ 773,000	\$ 662,377	\$ 662,000	\$ 377	6,625	\$ 111,152
	Taishin Ta-Chong Money Market	Financial assets at fair value through profit or loss - current	-	-	47,377	-	47,377	674,000	674,397	674,000	397	-	-
	FSITC Money Market	Financial assets at fair value through profit or loss - current	-	-	3,792	-	2,653	678,000	474,078	473,985	93	1,139	204,080

Note: Disposed carrying amount is the acquisition cost.

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details			Abnormal Transaction		Notes/Accounts (Payable) Receivable		Note	
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% of Total
Accton Technology Corporation	Joy Technology (Shenzhen) Co., Ltd.	Investment accounted for using the equity method indirect subsidiary	Purchase	\$ 29,089,029	66	Mainly paid on the 75th day after the shipment date	Specified at each transaction	Mainly paid on the 75th day after the shipment date	\$ (6,714,543)	68	-
	Edgecore Networks Corp.	Subsidiary	Purchase	991,250	2	Mainly paid on the 45th day after the shipment date	Specified at each transaction	Mainly paid on the 45th day after the shipment date	(223,294)	2	-
	Edgecore USA	Subsidiary	Sale	13,734,453	25	Mainly paid on the 75th day after the received date	Specified at each transaction	Mainly paid on the 75th day after the shipment date	2,865,142	41	-
	Edgecore Networks Corp.	Subsidiary	Sale	4,995,788	9	Mainly paid on the 75th day after the shipment date	Specified at each transaction	Mainly paid on the 75th day after the shipment date	385,927	6	-
	Accton Logistics Corp. (USA)	Subsidiary	Sale	3,955,240	7	Mainly paid on the 90th day after the shipment date	Specified at each transaction	Mainly paid on the 90th day after the shipment date	644,489	9	-
	SMC Networks Inc.	Subsidiary	Sale	138,612	-	Mainly paid on the 60th day after the shipment date	Specified at each transaction	Mainly paid on the 60th day after the shipment date	25,986	-	-
	Joy Technology (Shenzhen) Co., Ltd.	Held by the same ultimate holding company	Sale	1,785,272	3	Mainly paid on the 75th day after the shipment date	Specified at each transaction	Mainly paid on the 75th day after the shipment date	669,020	10	-
	Edgecore Networks Corp.	Subsidiary	Sale	787,891	1	Mainly paid on the 75th day after the invoice date	Specified at each transaction	Mainly paid on the 75th day after the invoice date	316,846	5	-

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance (Note 3)	Turnover Rate (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Accton Technology Corporation	Edgecore USA	Subsidiary	\$ 2,866,206	4.79	\$ 639,982	Strengthen collection	\$ 628,015	\$ -
	Accton Logistics Corp. (USA)	Subsidiary	671,656	6.59	-	-	-	-
	Edgecore Networks Corp.	Subsidiary	409,779	16.47	-	-	-	-
	Joy Technology (ShenZhen) Co., Ltd.	Investment accounted for using the equity method indirect subsidiary	515,140	Note 2	-	-	-	-
Joy Technology (Shenzhen) Co., Ltd.	Accton Century	Subsidiary	446,292	Note 2	-	-	446,292	-
	Accton Technology Corporation	Ultimate parent company	6,717,315	4.15	3,469,854	Strengthen collection	1,295,047	-
Edgecore Networks Corporation	Accton Technology Co., Ltd.	Held by the same ultimate holding company	669,020	2.50	198,804	Strengthen collection	137,795	-
	Joy Technology (Shen Zhen) Co., Ltd.	Held by the same ultimate holding company	519,845	Note 2	-	-	-	-
	Edgecore Americas	Subsidiary	316,846	2.13	548	Strengthen collection	99,084	-
Accton Century Accton Asia	Accton Technology Corporation	Ultimate parent company	231,576	4.69	190,816	Strengthen collection	159,898	-
	Accton Asia	Subsidiary	493,680	Note 2	-	-	493,680	-
	Joy Technology (Shen Zhen) Co., Ltd.	Subsidiary	553,705	Note 2	-	-	553,705	-

Note 1: Other receivables are not included in the calculation of turnover rate.

Note 2: The account is not subject to the calculation of turnover rate since its main composition is other receivables.

Note 3: Receivables from related parties include trade receivables - related parties and other receivables - related parties.

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

NAMES LOCATIONS AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
 DECEMBER 31, 2019
 (In Thousands of New Taiwan Dollars)

Investor Company	Equity-method Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2019		Net Income of the Equity-method Investee	Investment Income	Note
				December 31, 2019	December 31, 2018	Shares (Thousands)	% of Ownership			
Accton Technology Corporation	Accton Century Holding (BVI) Co., Ltd.	British Virgin Islands	Investment holding company	\$ 1,664,416	\$ 1,664,416	51,973	100	\$ 4,136,769	\$ 634,218	Notes 1 and 2
	Edgecore Networks Corp.	Hsin Chu	Research, development, design and manufacture of switching hubs	650,000	650,000	50,000	100	1,427,498	548,566	Note 1
	SMC Networks Inc.	USA	Sale of Network products	769,644	769,644	24,149	100	147,732	(22,621)	Note 1
	Accton Technology (China) Co., Ltd.	Cayman Islands	Investment holding company	279,635	279,635	6,600	100	99,731	44,343	Note 1
	Accton Technology Corp. USA	USA	Service of technique of high-quality LAN hardware and software products	342,132	342,132	2,199	100	176,257	886	Note 1
	Accton Investment Corp. (BVI)	British Virgin Islands	Investment holding company	79,676	79,676	1,004	100	162,752	(4,925)	Note 1
	ACCTON LOGISTICS CORP. (USA)	USA	Selling and marketing of high-quality LAN hardware and software products	89,267	89,267	1	100	60,459	3,158	Note 1
	Edgecore USA, Corp.	USA	Selling and marketing of high-quality LAN hardware and software products	35,316	-	10	100	(140,643)	15,257	Notes 1 and 6
	NOCSYS INC. E-Direct Corp.	Cayman Islands	Investment holding company	199,434	199,434	-	100	2,861	(58)	Note 1
		Taipei	Provides services in information software and information technology	43,075	43,075	3,852	100	79,419	22,137	Note 1
	WayStorm Co. Ltd. Metallence Technology Corp.	Taipei	Provides cell phone software	-	39,500	-	-	-	-	Note 4
		Taipei	Provides e-commerce apps, information software and advertising services	46,407	161,000	4,641	100	12,324	(12,832)	Notes 1 and 7
	Oenix Biomed Co., Ltd.	Taipei	Research and development of health care services and equipment	20,000	20,000	2,000	40	14,369	(2,209)	Note 1
4ipnet, Inc.	Taipei	Research, development, manufacture and selling of wireless products and solutions for enterprises	50,000	50,000	7,840	98	(19,279)	(42,064)	Notes 1 and 2	
Accton Century Holding (BVI) Co., Ltd.	Accton Asia Investments Corp. (BVI)	British Virgin Islands	Investment holding company	1,262,338	1,262,338	42,106	100	4,037,943	621,834	Note 1
Accton Investment Corp. (BVI)	Alpha Telecom, Inc.	USA	Sale and manufacture of Communication transmission, VoIP and IDSN equipment	(USD 42,106) 7,495	(USD 42,106) 7,495	2,647	30	-	-	Note 3
				(USD 250)	(USD 250)					

(Continued)

Investor Company	Equity-method Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2019			Net Income of the Equity-method Investee	Investment Income	Note
				December 31, 2019	December 31, 2018	Shares (Thousands)	% of Ownership	Carrying Value			
Edgecore Networks Corp.	SMC Networks Spain, S.L. Edgecore Networks Singapore Pte. Ltd.	Spain Singapore	Sale of network products Sell high-quality LAN hardware and software products	\$ - 22,466	\$ 4,061 22,466	- 3,557	- 100	\$ - 22,712	\$ 7,221 850	Notes 1 and 5 Note 1	
Edgecore Cayman Corp.	Edgecore Cayman, Corp. Horwood Limited Edgecore USA, Corp.	Cayman Islands Cayman Islands USA	Investment holding company Investment holding company Sell high-quality LAN hardware and software products	30,285 6,868 -	30,285 6,868 16,381	1,000 2,000 -	100 100 -	(39,174) 8,537 -	2,185 (2,053) 15,257	Note 1 Note 1 Note 6	
E-Direct Corp.	Edgecore Americas Networking Corp.	USA	Sell high-quality LAN hardware and software products	-	-	-	100	(84,345)	(3,605)	Note 1	
Edgecore Networks Singapore Pte. Ltd.	WayStorm Co., Ltd. Accton Technology Vietnam Company Limited	Taipei Vietnam	Provides cell phone software Sale of network products	- 8,994 (USD 300)	10,000 8,994 (USD 300)	- -	- 100	- 3,988 (SGD 179)	- -	Note 4 Note 1	
SMC Networks Inc.	IgniteNet EU	Lithuania	Research on high-quality LAN hardware and software products	-	50,007 (USD 1,668)	-	-	-	(660) 22) (USD	Note 8	

Note 1: Based on audited financial statements.

Note 2: After adjustment of gains or losses from related parties.

Note 3: Recognized an impairment loss.

Note 4: Way Storm Co., Ltd. completed its liquidation in April 2019.

Note 5: SMC Networks Spain completed its liquidation in August 2019.

Note 6: In order to reorganize the Group's organizational structure, the Company acquired 100% of Edgecore USA Corporation's shares which were held by Edgecore Cayman in August 2019.

Note 7: Metalligence Technology Corporation completed its capital deduction to cover losses and transferred its currency debits to capital in September 2019.

Note 8: IgniteNet EU completed its liquidation in November 2019.

(Concluded)

ACCTON TECHNOLOGY CORPORATION AND SUBSIDIARIES

INVESTMENT 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	Total Amount of Paid-in Capital (Note 2)	Method of Investment	Accumulated Outflow Remittance for Investment from Taiwan as of January 1, 2019 (Note 2)	Investment Flows		Accumulated Outflow Remittance for Investment from Taiwan as of December 31, 2019 (Note 2)	Net Income (Loss) of the Investee	Percentage of Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019	Note
					Outflow	Inflow							
Joy Technology (Shenzhen) Co., Ltd.	Selling and producing of high-end networks switches	\$ 1,334,110 (USD 44,500)	Note 1	\$ 1,109,260 (USD 37,000)	-	\$ -	\$ 1,109,260 (USD 37,000)	\$ 636,419	100%	\$ 636,419	\$ 4,004,652	\$ -	Note 3
Accton Technology Co., Ltd.	Selling and marketing of network products	179,880 (USD 6,000)	Note 1	179,880 (USD 6,000)	-	-	179,880 (USD 6,000)	44,511	100%	44,511	92,844	-	Note 3
Noctilucent Systems (Shanghai) Limited	Development, design and manufacture of software, selling product and consultation and service of technique	149,900 (USD 5,000)	Note 1	196,879 (USD 6,567)	-	-	196,879 (USD 6,567)	-	-	-	-	-	Notes 5 and 8
ATAN Networks Co., Ltd.	Selling and marketing of network products	59,960 (USD 2,000)	Note 11	59,960 (USD 2,000)	-	-	59,960 (USD 2,000)	(6,061)	100%	(6,061)	3,696	-	Notes 3 and 10
Equity-method Investee Company		Accumulated Investment in Mainland China as of December 31, 2019 (USD in Thousands)		Investment Amounts Authorized by the Investment Commission MOEA (USD in Thousands)		Ceiling Amount on of the Corporation's Investment in Mainland China							
Joy Technology (Shenzhen) Co., Ltd.		USD 37,000		USD 44,500 (Note 4)									
Accton Technology Co., Ltd.		USD 6,000		USD 6,000									
Noctilucent Systems (Shanghai) Limited		USD 6,567 (Notes 5 and 8)		USD 5,000									
ATAN Networks Co., Ltd.		USD 2,000		USD 2,000									
Arcadyan Technology (Shanghai) Corp. (Note 6)		USD 684		USD 5,586									
Tomato Technology (Shanghai) Corp. (Note 7)		USD 380		USD 380									
Zhuihai Jinfangda Technology Co., Ltd. (Note 9)		USD 937		USD 937									

Note 1: Investment made in mainland China was through the Company's subsidiaries that are located in the third region.

Note 2: Based on the exchange rate as of December 31, 2019.

Note 3: The amount was recognized based on the audited financial statements.

Note 4: Issuance of ordinary shares out of retained earnings amounted to USD7,500 thousand.

Note 5: Repayment of debt amounted to USD1,567 thousand.

Note 6: In December 2009, the Company sold 17% shares of Arcadyan Technology (Shanghai) Co., Ltd. to Arcadyan Technology Company and its affiliates.

(Continued)

Note 7: Tomato Technology (Shanghai) Corp. was sold in July 2009. The Investment Commission of the Ministry of Economic Affairs approved the sale of the investment.

Note 8: In September 2017, the Company sold Noctilucent (HK)'s 81% shares and jointly disposed of Noctilucent Systems (Shanghai) Limited. The resale case was approved by the Ministry of Economic Affairs for review. In addition, as stated in the letter issued by the Ministry of Economic Affairs Investment Review Committee, when Nocsys remits the transferred share capital, the accumulated investment in mainland China will be deducted.

Note 9: On April 19, 2019, the Company got the approval from the Investment Board, Ministry of Economic Affairs to invest in Zuhai Jinfangda Technology Co., Ltd. which was recognized under the financial assets at fair value through profit or loss - non-current.

Note 10: In order for Edgescore Networks Corporation to reorganize the Company's organizational structure, Edgescore Networks Corporation acquired 100% of ATAN Networks Co., Ltd.'s shares which were held by Horwood Limited in September 2019.

Note 11: Originally, the investment in mainland China was through the Company's subsidiaries that is located in the third region. Since the Company reorganized its organization structure in September 2019, Edgescore Networks Corporation will invest in mainland China directly.

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ACCTON TECHNOLOGY CORPORATION**STATEMENT OF CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Description	Amount
Petty Cash		\$ 643
Demand Deposits	Including NT\$108,463 thousand, USD61,964 thousand @29.98, RMB7,052 thousand @4.305, JPY\$6,756 thousand @0.276, EUR\$0.2 thousand @33.59	1,998,388
Checking Accounts		4,129
Time deposits	Expired by the end of August 2019 interest rates at 0.19%-2.33%	<u>1,401,340</u>
		3,404,500
Less: Pledged time deposits	Provided as a collateral for customs clearance	<u>(22,000)</u>
Total		<u>\$ 3,382,500</u>

ACCTON TECHNOLOGY CORPORATION

**STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS -
CURRENT**

DECEMBER 31, 2019

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

Item	Units (Thousand)	Cost	Fair Value		Note
			Unit Price	Amount	
Beneficiary certificates of the open-end mutual funds					
FSITC Money Market	1,139	\$ 204,015	179.10	\$ 204,080	Note
UPAMC James Bond Money Market Fund	6,625	<u>111,000</u>	16.778	<u>111,152</u>	Note
		<u>\$ 315,015</u>		<u>\$ 315,232</u>	

Note: Fair value is calculated based on the fund's net value at the end of December 2019.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE
INCOME - CURRENT

DECEMBER 31, 2019

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

Item	Unit (Thousand)	Acquisition Cost	Unit Price (Dollars)	Fair Value
Current				
Domestic listed shares and emerging market shares				
First Hi-Tec Enterprise Co., Ltd.	1,496	\$ 20,202	\$40.90	\$ 61,168
Cathay financial holding Co., Ltd. - preference shares	830	49,800	64.20	53,286
Clientron Corp.	289	1,979	22.67	6,560
Cathay financial holding Co., Ltd.- preference share B	35	<u>2,082</u>	64.00	<u>2,221</u>
Subtotal		74,063		123,235
Foreign unlisted shares				
TechnoConcepts Inc.	597	<u>19,362</u>		-
		<u>\$ 93,425</u>		<u>\$ 123,235</u>
Non-Current				
Foreign unlisted shares				
Worldgate Communication, Inc.	3,200	<u>\$ 41,965</u>		<u>\$ -</u>

Note: Fair value is calculated based on the closing price at the end of December 2019.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF FINANCIAL ASSETS AT AMORTIZED COST - CURRENT

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount	
Time deposits with original maturity of more than 3 months	USD\$5,000 thousands, Period: 2019.10.08-2020.01.13, Annual interest rate 2.32%	\$ 149,900	
	USD\$7,000 thousands, Period: 2019.10.30-2020.02.13, Annual interest rate 2.21%	209,860	
	USD\$6,000 thousands, Period: 2019.11.05-2020.02.13, Annual interest rate 2.10%	179,880	
	USD\$10,000 thousands, Period: 2019.10.25-2020.02.24, Annual interest rate 2.32%	299,800	
	USD\$10,000 thousands, Period: 2019.11.06-2020.02.27, Annual interest rate 2.10%	299,800	
	USD\$5,000 thousands, Period: 2019.10.08-2020.03.12, Annual interest rate 2.33%	149,900	
	USD\$8,000 thousands, Period: 2019.11.06-2020.03.12, Annual interest rate 2.10%	239,840	
	USD\$5,000 thousands, Period: 2019.12.10-2020.03.13, Annual interest rate 2.23%	149,900	
	USD\$5,000 thousands, Period: 2019.12.24-2020.03.26, Annual interest rate 2.22%	149,900	
	USD\$10,000 thousands, Period: 2019.12.26-2020.04.09, Annual interest rate 2.25%	299,800	
	USD\$10,000 thousands, Period: 2019.10.08-2020.04.14, Annual interest rate 2.37%	299,800	
	USD\$10,000 thousands, Period: 2019.10.30-2020.05.14, Annual interest rate 2.20%	299,800	
	USD\$10,000 thousands, Period: 2019.12.24-2020.05.14, Annual interest rate 2.23%	299,800	
	USD\$5,000 thousands, Period: 2019.12.26-2020.05.28, Annual interest rate 2.28%	149,900	
	USD\$10,000 thousands, Period: 2019.12.10-2020.06.11, Annual interest rate 2.25%	299,800	
	USD\$10,000 thousands, Period: 2019.12.10-2020.06.12, Annual interest rate 2.25%	299,800	
	NTD\$150,000 thousands, Period: 2019.12.17-2020.07.27, Annual interest rate 0.65%	150,000	
	NTD\$160,000 thousands, Period: 2019.12.30-2020.07.27, Annual interest rate 0.73%	160,000	
	Bond Investment-Industrial and Commercial Bank of China Limited, New York Branch	USD\$500, which expire on November 13, 2020, with an effective interest rate of 2.24%	<u>15,912</u>
			<u>\$ 4,103,392</u>

ACCTON TECHNOLOGY CORPORATION**STATEMENT OF TRADE RECEIVABLES****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Client Name	Amount
Client A	\$ 1,894,959
Client B	1,075,249
Client C	431,239
Client D	329,278
Others (Note)	<u>432,920</u>
	4,163,645
Less: Allowance for impairment loss	<u>(1,525)</u>
Total	<u>\$ 4,162,120</u>

Note 1: The amount of individual clients that are included in others does not exceed 5% of the account balance.

Note 2: No aging overdue for more than one year.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF OTHER RECEIVABLES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount
Tax refund	\$ 54,559
Others (Note)	<u>29,293</u>
	83,852
Allowance for impairment loss	<u>(3,046)</u>
Total	<u>\$ 80,806</u>

Note: The amount of individual clients that are included in others does not exceed 5% of the account balance.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF INVENTORIES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Net Realizable Value
Merchandise	\$ 838,085	\$ 937,438
Finished goods	647,797	725,665
Work in progress	420,368	480,017
Raw materials	<u>3,153,276</u>	<u>3,311,152</u>
Total	<u>\$ 5,059,526</u>	<u>\$ 5,454,272</u>

Note: The amount of inventory insurance is fully insured based on the total amount of inventory from the independent balance sheet.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - NON-CURRENT
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investees	Balance, January 1, 2019		Additions		Decreases		Balance, December 31, 2019	
	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousand)	Amount
Domestic and foreign unlisted ordinary shares								
Pershing Systems Corporation (Note 2)	2,168	\$ 52,076	130	\$ -	-	\$ -	2,298	\$ 47,781
i Pass Corporation	2,000	35,600	-	-	-	-	2,000	39,000
Wave-In Communication Inc.	1,138	4,187	-	-	-	-	1,138	2,950
Linker Corporation	469	7,169	-	-	-	-	469	-
Global Channel Resource Pte. Ltd.	500	7,158	-	-	-	-	500	-
Stratus Medicine Inc.	833	832	-	-	-	-	833	-
Innovium, Inc.	152	-	-	-	-	-	152	-
Zentera Systems, Inc.	400	-	-	-	-	-	400	-
Clop Technologies Pte. Ltd.	2,000	-	-	-	-	-	2,000	-
Xingtera Technology Optimizes	478	-	-	-	-	-	478	-
Mitac Information Technology Corp.	300	-	-	-	-	-	300	-
Acute Technology Corp.	2,650	-	-	-	-	-	2,650	-
Microlinks Technology Corp.	138	-	-	-	-	-	138	-
Peracom Networks, Inc.	2,931	-	-	-	-	-	2,931	-
Mobits Electronics, Inc.	387	-	-	-	-	-	387	-
Vodtel Communications Inc.	122	-	-	-	-	-	122	-
Midfin Systems Inc.	1,084	-	-	-	-	-	1,084	-
		\$ 107,022		\$ -		\$ -		\$ 89,731
								\$ (17,291)

Note 1: There is no pledge or guarantee for the above financial assets.

Note 2: The increase in the number of shares was due to the issuance of share dividends by the investees company.

Note 3: Recognition for the profit (loss) of financial assets measured at fair value through other comprehensive income based on the fair value in the end of 2019.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Balance, January 1, 2019		Additions (Decreases)		Shares of the Other Comprehensive Income (Loss) of Subsidiaries Accounted for Using the Equity Method	Subsidiaries Cash Dividends	Subsidiaries Allocated to Parent Company's cash Dividend	Unrealized Gain (Loss) on Investments in Equity Instruments at Fair Value Through Other Comprehensive Income	Exchange Differences Arising on Translation to the Presentation Currency	Other Adjustment	Unrealized Gain	Balance, December 31, 2019		Net Assets Value
	Shares (Thousand)	Amount	Shares (Thousand)	Amount								Shares (Thousand)	Amount	
Action Century Holding (DVI) Co., Ltd	51,973	\$ 4,196,819	-	\$ -	\$ 634,218	\$ (493,680)	\$ -	\$ -	\$ (200,388)	\$ -	\$ -	51,973	\$ 4,136,769	\$ 4,161,706
Edgecore Network Corporation	50,000	1,076,218	-	-	548,366	(480,705)	-	-	(852)	-	384,371	50,000	1,427,498	1,468,783
Action Technology Corp USA	2,199	179,707	-	-	886	-	-	-	(4,336)	-	-	2,199	176,257	176,257
Action Investment Corp. (DVI)	1,004	158,841	-	-	(4,925)	-	8,836	-	-	-	-	1,004	162,752	315,754
SMC Networks Inc.	24,149	177,368	-	-	(22,621)	-	-	(1,524)	(5,886)	-	395	24,149	147,732	147,732
Action Technology (China) Co., Ltd	6,600	58,545	-	-	44,343	-	-	-	(3,157)	-	-	6,600	99,731	99,731
E-direct Corporation	3,852	78,468	-	-	22,137	(21,186)	-	-	-	-	-	3,852	79,419	77,489
Action Logistics Corp. (USA)	1	62,213	-	-	3,158	-	-	-	(3,218)	-	(1,694)	1	60,459	108,072
Omnix Biomed Co., Ltd	2,000	16,578	-	-	(2,209)	-	-	-	-	-	-	2,000	14,369	14,369
Metelligence Technology Corp. (Note 3)	16,100	(21,242)	(11,459)	-	(12,822)	-	-	-	-	-	-	4,641	12,324	12,324
Noesys Inc.	-	2,919	-	-	(58)	-	-	-	-	-	-	-	2,861	2,861
WayStorm Co. Ltd. (Note 4)	446	54	(446)	-	-	-	-	-	-	-	-	-	-	-
4pnet, INC	7,840	21,366	-	-	(42,064)	-	-	-	-	538	881	7,840	(19,279)	(14,045)
Edgecore USA Corp. (Note 5)	-	-	10	35,316	8,022	-	-	-	(1,388)	-	(182,598)	10	(130,643)	(11,935)
		6,007,854		\$ 81,660	\$ 1,176,626	\$ (995,571)	\$ 8,836	\$ (1,524)	\$ (2,19,425)	\$ 538	\$ 101,255		6,160,249	\$ 6,512,988
Account receivable - related parties		-		-	-	-	-	-	-	-	-		141,886	
Other account receivable related parties		21,242		-	-	-	-	-	-	-	-		14,009	
Other non-current liabilities		-		-	-	-	-	-	-	-	-		4,027	
Total		\$ 6,029,096		\$ 81,660	\$ 1,176,626	\$ (995,571)	\$ 8,836	\$ (1,524)	\$ (2,19,425)	\$ 538	\$ 101,255		\$ 6,320,171	

Note 1: The gains and losses of the investment and the net equity value are calculated according to the investees' financial statements which audited by the accountant.

Note 2: There is no pledge or guarantee for the above financial assets.

Note 3: In September 2019, the board of directors resolved a capital reduction of 160,999 thousands to make up for losses and eliminated 16,099 thousands shares. In the same month, the board of directors resolved to convert the currency claims into capital increase of 46,198 thousand ordinary shares with a par value of \$10 for a consideration of financial structures.

Note 4: The Company completed the liquidation of its subsidiary, WayStorm Co. Ltd., in April 2019.

Note 5: In order to reorganize the Company's organizational structure, Action Technology Corporation acquired 100% of Edgecore USA Corporation's shares which were held by Edgecore Cayman Corporation in August 2019.

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF CHANGES IN RIGHT-OF-USE ASSETS AND STATEMENT OF CHANGES IN ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

	Land	Buildings	Total
Cost			
January 1, 2019	\$ -	\$ -	\$ -
Impact of retrospective application of IFRS 16	<u>143,783</u>	<u>168,877</u>	<u>312,660</u>
Restated on January 1, 2019	143,783	168,877	312,660
Additions	-	273,646	273,646
Lease modification	<u>-</u>	<u>(4,201)</u>	<u>(4,201)</u>
December 31, 2019	<u>143,783</u>	<u>438,322</u>	<u>582,105</u>
Accumulated depreciation			
January 1, 2019	-	-	-
Impact of retrospective application of IFRS 16	<u>-</u>	<u>-</u>	<u>-</u>
Restated on January 1, 2019	-	-	-
Depreciation	4,888	57,741	62,629
Lease modification	<u>-</u>	<u>(1,556)</u>	<u>(1,556)</u>
December 31, 2019	<u>4,888</u>	<u>56,185</u>	<u>61,073</u>
Carrying amount at December 31, 2019	<u>\$ 138,895</u>	<u>\$ 382,137</u>	<u>\$ 521,032</u>

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF TRADE PAYABLES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Vendor Name	Amount
Tsuding Global Electronic Co., Ltd.	\$ 318,464
Avago Technologies International Sales Pte. Limited	289,623
World Peace Industrial Co., Ltd.	247,899
3Y Power Technology (Taiwan Inc.)	231,447
WT Microelectronics Co., Ltd.	197,911
Avnet Inc.	161,706
Timson Enterprise Co., Ltd.	154,935
Others (Note)	<u>3,185,701</u>
Total	<u>\$ 4,787,686</u>

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

ACCTON TECHNOLOGY CORPORATION

STATEMENT OF LEASE LIABILITIES

FOR THE YEAR ENDED DECEMBER 31, 2019

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

Item	Lease Term	Discount Rate	Amount
Land	2019.01-2048.05	2.80%	\$ 139,989
Buildings	2019.01-2027.12	1.35%-2.20%	<u>369,723</u>
Total			509,712
Less: Lease liabilities - current			<u>(79,771)</u>
Lease liabilities -non-current			<u>\$ 429,941</u>

ACCTON TECHNOLOGY CORPORATION**STATEMENT OF NET REVENUE****FOR THE YEAR ENDED DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Item	Quantity	Unit	Amount
Switch	2,369	Thousand	\$ 35,363,127
Network Application	2,421	Thousand	9,086,472
Metro Access Switch	374	Thousand	3,274,551
Wireless	816	Thousand	1,573,958
Broadband Access	3	Thousand	9,323
			<u>1,078,288</u>
Other			50,385,719
			<u>(432,030)</u>
Sales return and allowance			<u>\$ 49,953,689</u>

ACCTON TECHNOLOGY CORPORATION

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

Item	Amount
Direct materials	
Balance, beginning of year	\$ 2,601,369
Raw material purchased	23,940,656
Transferred to expenses and others	(9,835,589)
Raw materials cost of sales	(260,214)
Raw materials, end of year	<u>(3,153,276)</u>
Raw material used	13,292,946
Manufacturing expenses	905,458
Direct labor	<u>464,358</u>
Manufacturing costs	14,662,762
Work in progress, beginning of year	195,127
Work in progress, end of year	(420,368)
Transferred to expenses and others	<u>(122,491)</u>
Cost of finished goods	14,315,030
Finished goods, beginning of year	428,994
Other transfer	10,181
Finished goods, end of year	<u>(647,797)</u>
Cost of production and marketing	<u>14,106,408</u>
Merchandise, beginning of year	442,189
Merchandise purchased	28,339,249
Transferred to expenses and others	(583,217)
Merchandise, end of year	<u>(838,085)</u>
Cost of trading merchandise	<u>27,360,136</u>
Cost of selling raw material	<u>260,214</u>
Cost of maintenance	<u>85,355</u>
Cost of goods sold	<u>\$ 41,812,113</u>

ACCTON TECHNOLOGY CORPORATION

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
Salary and bonuses	\$ 330,417	\$ 581,186	\$ 902,989
Professional service fees	396,273	58,660	9,491
Import and export miscellaneous charges	106,676	51,798	4,254
Overseas Sales support fee	82,713	-	-
Processing fee	74,963	216	2,321
Consumables fees	16,084	785	116,268
Remuneration of directors	-	45,375	-
Others (Note)	<u>238,524</u>	<u>239,911</u>	<u>378,950</u>
Total	<u>\$ 1,245,650</u>	<u>\$ 977,931</u>	<u>\$ 1,414,273</u>

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

ACCTON TECHNOLOGY CORPORATION

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

	For the Year Ended December 31		
	2019	2018	
	Classified as Operating Cost	Classified as Operating Cost	Classified as Operating Expenses
Labor cost			
Salary	\$ 520,111	\$ 2,330,073	\$ 1,348,071
Labor and health insurance	53,740	151,783	79,741
Pension	15,127	68,139	46,083
Remuneration of directors	-	45,375	58,092
Others	48,779	102,157	46,671
Total	\$ 637,757	\$ 2,697,527	\$ 1,578,658
Depreciation	\$ 131,866	\$ 261,001	\$ 76,944
Amortization	\$ 2,218	\$ 27,855	\$ 22,975
			\$ 1,883,214
			\$ 1,596,276
			104,430
			53,074
			58,092
			71,342
			\$ 24,058

Note 1: For the year of 2019 and 2018, the Company had average 2,180 and 1,509 employees per month, respectively, which includes 6 non-employee directors for both years.

Note 2: Companies whose stocks are listed on the stock exchange or listed on the stock counter trading center should disclose the following information:

- 1) The average employee welfare expense for the current year is 1,220 thousand ("Total employee welfare expenses for the current year-Total directors' remuneration"/"Number of employees for the current year-Number of directors who are not concurrent employees").
The average employee welfare expense for the previous year is 1,214 thousand ("Total employee welfare expenses for the previous year-Total directors' remuneration"/"Number of employees for the previous year-Number of non-part-time directors").
- 2) The average employee salary expenses for the current year is 1,072 thousand (the total salary expenses for the current year/the number of employees in the current year-the number of directors who are not part-time employees).
The average salary of the previous year is 1,062 thousand (the total salary expenses of the previous year/the number of employees in the previous year-the number of directors who have not served concurrently as employees).
- 3) Changes in the average employee salary expense adjustment 0.94 % ("Average employee salary expense for the current year-Average employee salary expense for the previous year"/Average employee salary expense for the previous year).