

ASIA VITAL COMPONENTS CO. , LTD
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED
December 31, 2019 AND 2018

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

Independent Auditors' Report

To ASIA VITAL COMPONENTS CO., LTD

Opinion

We have audited the accompanying consolidated balance sheets of ASIA VITAL COMPONENTS CO., LTD and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”).

In our opinion, based on our audits and the reports of other auditors (please refer to the *Other Matter – Making Reference to the Audits of Component Auditors* section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2019 and 2018, and its consolidated financial performance and cash flows for the years ended December 31, 2019 and 2018, in conformity with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants, Order NO. Financial-Supervisory-Securities-Auditing-1090360805 issued by Financial Supervisory Commission on February 25, 2020, and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the “Norm”), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, 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 most significant in our audit of 2019 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Accounts receivable impairment

As of December 31, 2019, the Company's net accounts receivable and allowance for bad debts amounted to NT\$7,053,893 thousand and NT\$156,055 thousand, respectively, constituting 20% of the consolidated balance. This ratio is significant to the Company whether or not allowance for bad debts can reflect accounts receivable credit risk and the ultimate net amount of accounts receivable, is related to the management's significant judgement. Therefore, we considered the appropriateness of this policy and the resulting figures to be a key audit matter.

Our audit procedures included, but are not limited to, assessing the appropriateness of accounts receivable expected credit loss. Included evaluating and testing the effectiveness of internal controls around accounts receivable; selecting samples to test the accuracy of accounts receivable aging, analyzing the variation of accounts receivable, verifying the appropriateness of long-term accounts receivable, performing sample selection for external confirmation of accounts receivable, and cross-checking the receiving status in order to evaluate the possibility of receivable.

We also assessed the adequacy of disclosures of accounts receivable and related risk. Please refer to Note 5 and 6 to the Company's consolidated financial statements.

2. Valuation for Inventories

As of December 31, 2019, the Company's net inventories amounted to NT\$8,264,715 thousand, constituting 23% of consolidated total assets which is significant for the financial statements. The allowance for reduction of obsolete inventory due to the uncertainty caused by the rapid change of product technology, is closely related to the management's judgement. Therefore, we considered this a key audit matter.

Our audit procedures included, but are not limited to, testing the effectiveness of the internal controls around inventories, including inventory cost carried down; evaluating the inventory status, evaluating management's stock-taking plan, selecting the ideal warehouse site and performing the physical count to identify the number and status of inventory, testing the accuracy of inventory aging, and analyzing the variation of inventory aging and considering the anticipated demand and market value, evaluating the analysis of obsolete inventory of management, including the possibility of inventory realization and the evaluation of net realizable value, and testing the appropriateness of withdrawing inventory value from the allowance amount of inventory realization.

Please refer to Note 5 and 6 to the Company's consolidated financial statements.

Other Matter – Making Reference to the Audits of Component Auditors

Certain subsidiaries included in the consolidated financial statements were audited by other independent accountants. These subsidiaries' total assets amounted to NT\$281,816 thousand and NT\$142,125 thousand, which accounted for 0.79% and 0.47% of the total consolidated assets as of December 31, 2019 and 2018, respectively. The net sales of these subsidiaries amounted to NT\$483,487 thousand and NT\$218,720 thousand, which accounted for 1.32% and 0.75% of the consolidated net sales for the years ended December 31, 2019 and 2018, respectively. Certain investments, which were accounted for under the equity method based on the financial statements of the investees, were audited by other independent accountants. Our audit, insofar as it relates to the investments accounted for under the equity method balances of NT\$251,048 thousand and NT\$254,922 thousand, which accounted for 0.71% and 0.84 % of the total consolidated assets as of December 31, 2019 and 2018, respectively, and the related shares of investment income from the associates amounted to NT\$5,565 thousand and NT\$4,597 thousand, which accounted for 0.37% and 0.45% of the consolidated income from continuing operations before income tax for the years ended December 31, 2019 and 2018, respectively, and the related shares of other comprehensive income from the associated amounted to (NT\$412) thousand and (NT\$3,798) thousand, which accounted for 0.10% and 2.67% of the consolidated total comprehensive income, for the years ended December 31, 2019 and 2018, respectively, is based solely on the reports of other independent accountants.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company, 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 audit committee, are responsible for overseeing the financial reporting process of the Company.

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2019 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on only the parent company's financial statements of the Company as of and for the years ended December 31, 2019 and 2018, respectively.

Ernst & Young, Taiwan
Republic of China
March 13, 2020

Notice to Readers

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

English translation of Consolidated Financial Statements Originally issued in Chinese
ASIA VITAL COMPONENTS CO., LTD
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	December 31, 2019		December 31, 2018		Liabilities and Equity	Notes	December 31, 2019		December 31, 2018	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets						Current liabilities					
Cash and cash equivalents	4,6(1)	\$8,154,556	23	\$6,775,977	22	Short-term loans	6(13)	\$2,000,456	6	\$1,610,194	5
Financial assets measured at amortized costs, current	6(2), 8	349,340	1	447,683	2	Short-term notes and bills payable	6(14)	100,000	0	—	—
Notes receivable, net	4,6(3)	551,952	2	433,524	2	Contract liabilities, current	4, 6(20)	16,103	0	31,645	0
Accounts receivable, net	4,6(4)	6,897,838	20	4,971,908	16	Notes payable		2,098,634	6	1,839,917	6
Other receivables	6(5)	492,793	1	413,653	1	Accounts payable		10,758,502	30	8,763,847	29
Other receivables-related parties	6(5)	24,067	0	17,423	0	Other payables		2,665,912	8	1,835,227	6
Inventories, net	4,6(6)	8,264,715	23	7,554,712	25	Current tax liabilities	4, 6(25)	436,540	1	258,444	1
Prepayments		434,623	1	245,456	1	Lease liabilities-Current	4, 6(21)	131,016	0	—	—
Other current assets		737,863	2	711,525	2	Other current liabilities		217,363	1	182,621	0
Total current assets		<u>25,907,747</u>	<u>73</u>	<u>21,571,861</u>	<u>71</u>	Current portion of long-term loans	6(15)	2,161,667	6	1,782,486	6
						Total current liabilities		<u>20,586,193</u>	<u>58</u>	<u>16,304,381</u>	<u>53</u>
Non-current assets						Non-current liabilities					
Financial assets at fair value through other comprehensive income, noncurrent	4,6(7)	111,835	0	112,069	0	Long-term loans	6(15)	3,749,166	11	3,387,687	11
Investments accounted for using the equity method	4,6(8)	289,905	1	293,645	1	Deferred tax liabilities	4, 6(25)	952,541	3	831,558	3
Property, plant and equipment	4, 6(9), 8	6,712,042	19	6,409,263	21	Lease liabilities-Non current	4, 6(21)	140,361	0	—	—
Right-of-use assets	4, 6(21), 8	826,993	2	—	—	Long-term deferred revenue	6(16)	770,163	2	828,001	3
Investment property, net	4, 6(10), 8	154,153	1	182,180	1	Net defined benefit liabilities, noncurrent	4, 6(17)	7,382	0	18,991	0
Intangible assets	4,6(11)	141,642	0	145,089	0	Guarantee deposits		19,011	0	17,076	0
Deferred tax assets	4, 6(25)	731,496	2	513,266	2	Total non-current liabilities		<u>5,638,624</u>	<u>16</u>	<u>5,083,313</u>	<u>17</u>
Other non-current assets	6(12), 8	682,914	2	1,168,891	4	Total liabilities		<u>26,224,817</u>	<u>74</u>	<u>21,387,694</u>	<u>70</u>
Total non-current assets		<u>9,650,980</u>	<u>27</u>	<u>8,824,403</u>	<u>29</u>						
						Equity attributable to the parent company					
						Capital	6(18)				
						Common stock		3,533,101	10	3,533,101	12
						Additional paid-in capital	6(18)	1,540,817	4	1,540,647	5
						Retained earnings	6(18)				
						Legal reserve		769,695	2	698,569	2
						Special reserve		995,284	3	538,746	2
						Undistributed earnings		3,539,661	10	3,454,347	11
						Total retained earnings		<u>5,304,640</u>	<u>15</u>	<u>4,691,662</u>	<u>15</u>
						Other components of equity	4	<u>(1,402,573)</u>	<u>(4)</u>	<u>(995,283)</u>	<u>(3)</u>
						Total equity attributable to the parent company		8,975,985	25	8,770,127	29
						Non-controlling interests	6(18)	357,925	1	238,443	1
						Total equity		<u>9,333,910</u>	<u>26</u>	<u>9,008,570</u>	<u>30</u>
Total assets		<u>\$35,558,727</u>	<u>100</u>	<u>\$30,396,264</u>	<u>100</u>	Total liabilities and equity		<u>\$35,558,727</u>	<u>100</u>	<u>\$30,396,264</u>	<u>100</u>

English translation of Consolidated Financial Statements originally issued in Chinese
ASIA VITAL COMPONENTS CO., LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars, except for earnings par share)

Items	Notes	2019		2018	
		Amount	%	Amount	%
Operating Revenue	4,6(20), 7	\$36,534,445	100	\$29,066,591	100
Operating costs	6(21).(22), 7	(32,220,146)	(88)	(25,619,313)	(88)
Gross profit		4,314,299	12	3,447,278	12
Operating expenses	6(21).(22)				
Sales and marketing expenses		(647,866)	(2)	(617,689)	(2)
General and administrative expenses		(469,101)	(1)	(521,162)	(2)
Research and development expenses		(1,938,036)	(6)	(1,589,088)	(5)
Subtotal		(3,055,003)	(9)	(2,727,939)	(9)
Operating income		1,259,296	3	719,339	3
Non-operating income and expenses					
Other income	4,6(23)	512,088	1	486,182	2
Other gains and losses	4,6(23)	(75,141)	(0)	4,482	0
Finance costs	6(23)	(211,252)	(0)	(188,359)	(1)
Share of profit or loss of associates	4,6(8)	8,838	0	9,718	0
Subtotal		234,533	1	312,023	1
Income from continuing operations before income tax		1,493,829	4	1,031,362	4
Income tax expense	4,6(25)	(520,736)	(1)	(301,515)	(1)
Net income		973,093	3	729,847	3
Other comprehensive income (loss)	6(24)				
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit pension plans		10,398	0	(2,513)	(0)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income		1,071	0	(8,544)	(0)
Income tax related to items that will not be reclassified		(2,079)	(0)	1,084	0
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations		(473,393)	(1)	(158,594)	(1)
Share of other comprehensive income (loss) of associates		(851)	(0)	(3,980)	(0)
Income tax related to items that may be reclassified subsequently		61,277	0	30,435	0
Total other comprehensive loss, net of tax		(403,577)	(1)	(142,112)	(1)
Total comprehensive income		\$569,516	2	\$587,735	2
Net income attributable to:					
Stockholders of the parent		\$957,969	3	\$711,261	3
Non-controlling interests		15,124	0	18,586	0
		\$973,093	3	\$729,847	3
Comprehensive income (loss) attributable to:					
Common Stockholders of the parent		\$558,998	2	\$584,526	2
Non-controlling interests		10,518	0	3,209	0
		\$569,516	2	\$587,735	2
Earnings per share (NTD)	4, 6(26)				
Earnings per share-basic		\$2.71		\$2.01	
Earnings per share-diluted		\$2.70		\$2.00	

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

English translation of Consolidated Financial Statements originally issued in Chinese
ASIA VITAL COMPONENTS CO., LTD
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars)

Items	Equity Attributable to the Parent Company								Non-Controlling Interests	Total Equity
	Capital	Additional Paid-in Capital	Retained Earnings			Other Components of Equity		Total		
	Common Stock		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Operations	Unrealized Gains (Losses) From Equity Instruments Investments Measured At Fair Value Through Other Comprehensive Income			
Balance as of January 1, 2018	\$3,533,101	\$1,655,838	\$609,901	\$368,149	\$2,962,906	(\$538,445)	—	\$8,591,450	\$235,234	\$8,826,684
Impact of retroactive applications					394,184		(\$331,532)	62,652		62,652
Adjusted balance as of January 1, 2018	3,533,101	1,655,838	609,901	368,149	3,357,090	(538,445)	(331,532)	8,654,102	235,234	8,889,336
Appropriation and distribution of 2017 retained earnings										
Legal reserve			88,668		(88,668)			—		—
Special reserve				170,597	(170,597)			—		—
Cash dividends					(353,310)			(353,310)		(353,310)
Cash paid from additional paid-in capital		(105,993)						(105,993)		(105,993)
Net income for the year ended December 31, 2018					711,261			711,261	18,586	729,847
Other comprehensive income (loss), net of tax for the year ended December 31, 2018					(1,429)	(116,762)	(8,544)	(126,735)	(15,377)	(142,112)
Total comprehensive income (loss)	—	—	—	—	709,832	(116,762)	(8,544)	584,526	3,209	587,735
Changes in other additional paid-in capital		(9,198)						(9,198)		(9,198)
Balance as of December 31, 2018	\$3,533,101	\$1,540,647	\$698,569	\$538,746	\$3,454,347	(\$655,207)	(\$340,076)	\$8,770,127	\$238,443	\$9,008,570
Balance as of January 1, 2019	\$3,533,101	\$1,540,647	\$698,569	\$538,746	\$3,454,347	(\$655,207)	(\$340,076)	\$8,770,127	\$238,443	\$9,008,570
Appropriation and distribution of 2018 retained earnings										
Legal reserve			71,126		(71,126)			—		—
Special reserve				456,538	(456,538)			—		—
Cash dividends					(353,310)			(353,310)		(353,310)
Donation from shareholders		170						170		170
Net income for the year ended December 31, 2019					957,969			957,969	15,124	973,093
Other comprehensive income (loss), net of tax for the year ended December 31, 2019					8,319	(408,361)	1,071	(398,971)	(4,606)	(403,577)
Total comprehensive income (loss)	—	—	—	—	966,288	(408,361)	1,071	558,998	10,518	569,516
Increase in non-controlling interests								—	108,964	108,964
Balance as of December 31, 2019	\$3,533,101	\$1,540,817	\$769,695	\$995,284	\$3,539,661	(\$1,063,568)	(\$339,005)	\$8,975,985	\$357,925	\$9,333,910

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

English translation of Consolidated Financial Statements originally issued in Chinese
ASIA VITAL COMPONENTS CO., LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018
(Expressed in thousands of New Taiwan Dollars)

Items	2019	2018
Cash flows from operating activities:		
Net income before tax	\$1,493,829	\$1,031,362
Adjustments to reconcile net income before tax to net cash provided by operating activities:		
Income and expense adjustments :		
Depreciation	1,119,059	782,987
Amortization	37,777	30,422
Amortization of royalty	4,033	4,114
Amortization of patent	—	491
Expected credit losses(profit)	29,388	(10,597)
Interest expense	211,252	188,359
Interest income	(36,935)	(36,183)
Dividend revenue	(1,018)	—
Compensation costs of share-based payment transaction	8,880	—
Share of profit of associates	(8,838)	(9,718)
Loss (Gain) on disposal of property, plant and equipment	48,328	(6,978)
Loss on disposal of Intangible assets	825	—
(Gain) on disposal of investments	(606)	—
Others	746,621	491,461
Changes in operating assets and liabilities:		
Notes receivable	(118,559)	175,424
Accounts receivable	(1,989,176)	767,249
Accounts receivable-related parties	—	21
Other receivables	(41,898)	74,822
Other receivables-related parties	(6,644)	(9,992)
Inventories	(1,454,496)	(2,728,248)
Prepayments	(203,050)	(44,646)
Other current assets	(26,338)	(14,024)
Other operation assets	98,343	(174,404)
Contract liabilities	(15,542)	24,824
Notes payable	258,717	33,227
Accounts payable	1,994,655	845,381
Other payables	835,079	(72,763)
Other current liabilities	34,742	(17,133)
Net defined benefit liabilities	(1,211)	(1,268)
Cash generated from operations	3,017,217	1,324,190
Interest received	36,935	36,183
Interest paid	(215,627)	(182,381)
Income tax paid	(380,690)	(206,651)
Net cash provided by operating activities	2,457,835	971,341
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	—	(1,043)
Acquisition of financial assets measured at amortized costs	—	(185,329)
Proceeds from disposal of financial assets at amortized costs	—	179,288
Acquisition of financial assets at fair value through profit or loss	(84,180)	—
Proceeds from disposal of financial assets at fair value through profit or loss	83,330	—
Increase in advance payments in investment	9,050	(9,050)
Acquisition of property, plant and equipment	(1,659,544)	(1,569,356)
Proceeds from disposal of property, plant and equipment	61,501	71,189
(Increase) in refundable deposits	(139,050)	(5,935)
Acquisition of intangible assets	(41,841)	(125,329)
Proceeds from disposal of intangible assets	81	—
Decrease in other noncurrent assets-others	59,933	153,628
Dividends received	3,718	2,700
Net cash used in investing activities	(1,707,002)	(1,489,237)
Cash flows from financing activities:		
Increase in short-term loans	12,169,463	9,812,085
Decrease in short-term loans	(11,743,496)	(9,880,358)
Increase in short-term notes and bills payable	100,000	—
Proceeds from long-term loans	6,150,000	6,655,063
Repayments of long-term loans	(5,409,340)	(5,605,625)
Increase in guarantee deposits	1,935	12,362
Repayment of lease liabilities	(147,159)	—
Cash dividends	(353,310)	(459,303)
Change in non-controlling interests	100,084	—
Net cash provided in financing activities	868,177	534,224
Effect of exchange rate changes on cash and cash equivalents	(240,431)	(84,707)
Net increase (decrease) in cash and cash equivalents	1,378,579	(68,379)
Cash and cash equivalents at beginning of year	6,775,977	6,844,356
Cash and cash equivalents at end of year	\$8,154,556	\$6,775,977

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

English Translation of Financial Statements Originally Issued in Chinese
ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 December 2019 AND 2018
(Unless otherwise stated, all amounts expressed are in thousands of New Taiwan Dollars)

1. History and organization

ASIA VITAL COMPONENTS CO., LTD. (the Company) was incorporated on December 17, 1991. The Company's registered address is No.248-27, Xinsheng Rd., Qianzhen Dist., Kaohsiung City. The principal activities of the Company are to manufacture, process, assemble and to import and export electronic parts, electronic materials, communication electronic machinery products, automobile parts, lighting device, computer peripherals.

The Company's ordinary shares were publicly listed on the Taiwan Stock Exchange (TWSE) on 27 September, 2002.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Company and its subsidiaries ("the Group") for the years ended 31 December 2019 and 2018 were authorized for issue in accordance with a resolution of the Board of Directors' meeting on March 13, 2020.

3. Newly issued or revised standards and interpretations

- (1) The Group adopted International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after January 1, 2019. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

A. IFRS 16 "Leases"

IFRS 16 "Leases" replaces IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The Group followed the transition provision in IFRS 16 and the date of initial application was January 1, 2019. The impacts arising from the adoption of IFRS 16 are summarized as follows:

- (a) Please refer to Note 4 for the accounting policies before or after January 1, 2019.

- (b) For the definition of a lease, the Group elected not to reassess whether a contract was, or contained, a lease on 1 January 2019. The Group was permitted to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 but not to apply IFRS 16 to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. That is, for contracts entered into (or changed) on or after 1 January 2019, the Group need to assess whether contracts are, or contain, leases applying IFRS 16. In comparing to IAS 17, IFRS 16 provides that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group assessed most of the contracts are, or contain, leases and has no significant impact arisen.
- (c) The Group is a lessee and elects not to restate comparative information in accordance with the transition provision in IFRS 16. Instead, the Group recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

I. Leases previously classified as operating leases

For leases that were previously classified as operating leases applying IAS 17, the Group measured and recognized those leases as lease liability on January 1, 2019 at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019, and the Group chose, on a lease-by-lease basis, to measure the right-of-use asset at either:

- i. its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate on January 1, 2019; or
- ii. an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before January 1, 2019.

On January 1, 2019, the Group's right-of-use asset and lease liability increased by \$417,552 thousand and \$417,552 thousand, respectively.

Besides, on January 1, 2019, for leases that were previously classified as operating leases applying IAS 17 and those who have paid the rent in full, the Group reclassified the rental prepayment of \$594,385 thousand to the right-of-use asset.

In accordance with the transition provision in IFRS 16, the Group used the following practical expedients on a lease-by-lease basis to leases previously classified as operating leases:

- i. Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- ii. Rely on its assessment of whether leases are onerous immediately before January 1, 2019 as an alternative to performing an impairment review.
- iii. Elect to account in the same way as short-term leases to leases for which the lease term ends within 12 months of January 1, 2019.
- iv. Exclude initial direct costs from the measurement of the right-of-use asset on January 1, 2019.
- v. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

II. Leases previously classified as finance leases

For leases that were previously classified as finance leases applying IAS 17, the Group reclassified the lease asset of \$8 thousand and the lease payable of \$19 thousand as measured by IAS 17 to the right-of-use asset of \$8 thousand and the lease liability of \$19 thousand, respectively, on January 1, 2019.

III. Please refer to Note 4 and Note 6 for additional disclosure of lessee and lessor which required by IFRS 16.

IV. As at January 1, 2019, the impacts arising from the adoption of IFRS 16 are summarized as follows:

- i. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the balance sheet on January 1, 2019 was 2.77%.
- ii. The explanation for the difference between: (1) operating lease commitments disclosed applying IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate on January 1, 2019; and (2) lease liabilities recognized in the balance sheet as at January 1, 2019 is summarized as follows:

Operating lease commitments disclosed applying IAS 17 as of December 31, 2018	\$439,224
Discounted using the incremental borrowing rate on January 1, 2019	\$417,552
Add: the carrying value of lease payables as of December 31, 2018	19
The carrying value of lease liabilities recognized as of January 1, 2019	<u>\$417,571</u>

(d) The Group is a lessor and has not made any adjustments. Please refer to Note 4 and Note 6 for the information relating to the lessor.

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

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	Definition of a Business (Amendments to IFRS 3)	January 1, 2020
b	Definition of Material (Amendments to IAS 1 and 8)	January 1, 2020
c	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	January 1, 2020

A. Definition of a Business (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

B. Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

C. Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments include a number of exceptions, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is directly affected if the interest rate benchmark reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Hence, the entity shall apply the exceptions to all hedging relationships directly affected by the interest rate benchmark reform.

The amendments include:

(a) highly probable requirement

When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform.

(b) prospective assessments

When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

(c) IAS 39 retrospective assessment

An entity is not required to undertake the IAS 39 retrospective assessment (i.e. the actual results of the hedge are within a range of 80–125%) for hedging relationships directly affected by the interest rate benchmark reform.

(d) separately identifiable risk components

For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

The amendments also include the end of application of the exceptions requirements and the related disclosures requirements of the amendments.

The abovementioned standards and interpretations were issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after January 1, 2020. As the Group is still currently determining the potential impact of the standards and interpretations listed above, it is not practicable to estimate their impact on the Group at this point in time.

- (3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below.

Items	New, Revised or Amended Standards and Interpretations	Effective Date issued by IASB
a	IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” — Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	To be determined by IASB
b	IFRS 17 “Insurance Contracts”	January 1, 2021
c	Classification of Liabilities as Current or Non-current – Amendments to IAS 1	January 1, 2022

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

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full. IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture. The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

B. IFRS 17 “Insurance Contracts”

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

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

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Other than the General Model, the standard also provides a specific adaptation for contracts with direct participation features (the Variable Fee Approach) and a simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

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

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

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations listed under A, it is not practicable to estimate their impact on the Group at this point in time.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2019 and 2018 have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (“the Regulations”) and International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee and Standing Interpretations Committee as endorsed by the FSC.

(2) Basis of preparation

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

(3) Basis of consolidation

Preparation principle of consolidated financial statements

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

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

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

- A. the contractual arrangement with the other vote holders of the investee
- B. rights arising from other contractual arrangements
- C. the Group’s voting rights and potential voting rights

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

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

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

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

If the Group loses control of a subsidiary, it:

- A. derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. derecognizes the carrying amount of any non-controlling interest;
- C. recognizes the fair value of the consideration received;
- D. recognizes the fair value of any investment retained;
- E. recognizes any surplus or deficit in profit or loss; and
- F. reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			2019.12.31	2018.12.31
The Group	AVC INTERNATIONAL CO., LTD. – B.V.I. (AVCI – BVI)	Investment holding	100.00%	100.00%
	CHIHUNG INTERNATIONAL LTD. (CHIHUNG)	Investment holding	100.00%	100.00%
	RAYNEY INTERNATIONAL LTD. (RAYNEY)	Trade	100.00%	100.00%
	MERIT TRADING CORPORATION (MERIT)	Trade	100.00%	100.00%
	AVC AMERICA, INC. (AVCA)	Trade	100.00%	100.00%
	AVC INTERNATIONAL (SAMOA) CO., LTD. (AVCI(SAMOA))	Trade	100.00%	100.00%
	JADS CORPORATION (HK) LTD. (JADS)	Trade	100.00%	100.00%
	AVC INTERNATIONAL CO., LTD. – SAMOA (AVCI – SAMOA)	Trade	100.00%	100.00%
	HUNG YE INVESTMENT CO., LTD. (HUNG YE)	Investment holding	100.00%	100.00%

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			2019.12.31	2018.12.31
	D-MAX TECHNOLOGY CO., LTD. (D-MAX)	Sales and manufacture of electronic parts and related products	100.00%	100.00%
	FOSITEK CORP. (FST)	Sales and manufacture of electronic parts and related products	29.71%	30.99%
	AVC Europe Technology GmbH (AVCEU)	Trade	100.00%	—
AVCI – BVI	ASIA VITAL COMPONENTS (SHENZHEN) CO., LTD. (AVCSZ)	Sales and manufacture of electronic products	100.00%	100.00%
	MACE TECH CORP. (MACE)	Trade	100.00%	100.00%
	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD. (AVCCD)	Sales and manufacture of computers, related parts and accessories	100.00%	100.00%
	AVC OPTICS CORP. (AVCOC)	Investment holding	100.00%	100.00%
MACE	ASIA VITAL COMPONENTS (DONGGUAN) CO., LTD. (AVCDG)	Manufacture, process and sales of electronic products	100.00%	100.00%
AVCOC	AVC OPTICS (WUHAN) CORP. (AVCWH)	Sales and manufacture of computers, related parts and accessories	100.00%	100.00%
AVCWH	WUHAN ASIA VITAL COMPONENTS CO., LTD. (AVCWN)	Trade	100.00%	100.00%
CHIHUNG	TONBRIDGE INVESTMENTS LTD. (TONBRIDGE)	Investment holding	100.00%	100.00%
	ASIA VITAL COMPONENTS (CHINA) CO., LTD. (AVCCN)	Sales and manufacture of electronic products	100.00%	100.00%
TONBRIDGE	ASIA VITAL COMPONENTS (SHANGHAI) CO., LTD. (AVCSH)	Notebook thermal module	100.00%	100.00%

Investor	Subsidiary	Main businesses	Percentage of ownership (%)	
			2019.12.31	2018.12.31
AVCCN	BEIJING AVC TECHNOLOGY RESEARCH CENTER CO., LTD. (AVCBJ)	Maintenance, research and development of electronic products	100.00%	100.00%
	AVC PRECISION, CO., LTD. (AVCP)	Sales and manufacture of electronic products	100.00%	100.00%
D-MAX	WUCHIDA INTERNATIONAL (SAMOA) CO., LTD. (WUCHIDA)	Investment holding	100.00%	100.00%
WUCHIDA	D-Max INTERNATIONAL CO., LIMITED (D-Max HK)	Investment holding	100.00%	100.00%
D-Max HK	(JIASHAN) D-MAX ELECTRONICS CO., LTD.	Sales and manufacture of electronic and photographic equipment	100.00%	100.00%
FST	FOREVER RICH INVESTMENTS CO., LTD. (FOREVERRICH)	Investment holding	100.00%	100.00%
	MARKETHILL INVESTMENTS LIMITED (MARKETHILL)	Investment holding	76.19%	76.19%
MARKETHILL	DONG GUANDOWA ELECTRONICS CO., LTD.	Sales and manufacture of membrane switches	100.00%	100.00%
	FIRST DOME CORP TELECOM., LTD.	Sales and manufacture of rails, shafts and metal stamping tooling	100.00%	100.00%
FOREVER RICH	MARKETHILL INVESTMENTS LIMITED (MARKETHILL)	Investment holding	23.81%	23.81%

Although the percentage of ownership interests in FST is less than 50%, the Group determined that it has control over FST. This is due to a combination of factors : the Group remains the single largest shareholder of FST since the increase of the investment in September 2014, the Group could obtain proxies to achieve relative majority in the absence of a contractual arrangement in place; and the ability of the Company to appoint or approve the key management personnel of FST who have the ability to direct the relevant activities.

(4) Foreign currency transactions

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

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

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

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

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

(5) Translation of financial statements in foreign currency

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

- A. when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation; and
- B. when the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

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

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

(6) Current and non-current distinction

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(7) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid time deposits (including ones that have maturity within 12 months) or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Financial instruments

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

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

A. Financial instruments: Recognition and Measurement

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

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

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

Financial assets measured at amortized cost

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

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

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognise the impairment gains or losses.

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

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

Financial asset measured at fair value through other comprehensive income

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

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

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

- (a) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (b) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (c) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - i. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - ii. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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

Financial asset measured at fair value through profit or loss

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

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

B. Impairment of financial assets

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

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

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

The loss allowance is measures as follow:

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

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

C. Derecognition of financial assets

A financial asset is derecognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (c) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

D. Financial liabilities and equity

Classification between liabilities or equity

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

Equity instruments

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

Compound instruments

The Group evaluates the terms of the convertible bonds issued to determine whether it contains both a liability and an equity component. Furthermore, the Group assesses if the economic characteristics and risks of the put and call options contained in the convertible bonds are closely related to the economic characteristics and risk of the host contract before separating the equity element.

For the liability component excluding the derivatives, its fair value is determined based on the rate of interest applied at that time by the market to instruments of comparable credit status. The liability component is classified as a financial liability measured at amortized cost before the instrument is converted or settled.

For the embedded derivative that is not closely related to the host contract (for example, if the exercise price of the embedded call or put option is not approximately equal on each exercise date to the amortized cost of the host debt instrument), it is classified as a liability component and subsequently measured at fair value through profit or loss unless it qualifies for an equity component. The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. Its carrying amount is not remeasured in the subsequent accounting periods. If the convertible bond issued does not have an equity component, it is accounted for as a hybrid instrument in accordance with the requirements under IFRS 9 Financial Instruments.

Transaction costs are apportioned between the liability and equity components of the convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized.

On conversion of a convertible bond before maturity, the carrying amount of the liability component being the amortized cost at the date of conversion is transferred to equity.

Financial liabilities

Financial liabilities within the scope of IFRS 9 Financial Instruments are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss. A financial liability is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (a) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Financial liabilities at amortized cost

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

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

Derecognition of financial liabilities

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

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

E. Offsetting of financial instruments

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

(9) Fair value measurement

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

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability

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

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

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

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

(10) Inventories

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

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

Raw materials – Purchase cost on a first in, first out basis

Finished goods and work in progress – Cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

(11) Investments accounted for using the equity method

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

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

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

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired in accordance with IAS 28 Investments in Associates and Joint Ventures (before 1 January 2019: IAS 39 Financial Instruments: Recognition and Measurement). If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the 'share of profit or loss of an associate' in the statement of comprehensive income in accordance with IAS 36 Impairment of Assets. In determining the value in use of the investment, the Group estimates:

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

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

Upon loss of significant influence over the associate or joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

(12) Property, plant and equipment

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

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

Buildings	20~57 years
Machinery and Equipment	1~15 years
Molding Equipment	1~10 years
Right-of-use assets/leased assets (Note)	1~50 years
Other Facilities	1~30 years

(Note): The Group reclassified the lease assets to right-of-use assets after the adoption of IFRS 16 from January 1, 2019.

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

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

(13) Investment property

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

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

Buildings	43~57 years
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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

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

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

(14) Leases

For contracts entered on or after January 1, 2019, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether the contract, throughout the period of use, has both of the following:

- A. the right to obtain substantially all of the economic benefits from use of the identified asset; and
- B. the right to direct the use of the identified asset.

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

Group as a lessee

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

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

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

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

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

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

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

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

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

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

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

Group as a lessor

At inception of a contract, the Group classifies each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the Group recognizes assets held under a finance lease in its balance sheet and present them as a receivable at an amount equal to the net investment in the lease.

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

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

(15) Intangible assets

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

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

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

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

Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss.

Research and development costs

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

- A. the technical feasibility of completing the intangible asset so that it will be available for use or sale
- B. its intention to complete and its ability to use or sell the asset
- C. how the asset will generate future economic benefits
- D. the availability of resources to complete the asset
- E. the ability to measure reliably the expenditure during development

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

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

	Patents	Computer software
Useful lives	Finite(5 years)	Finite(1~10 years)
Amortization method used	Amortized on a straight- line basis	Amortized on a straight- line basis
Internally generated or acquired	Acquired	Acquired

(16) Impairment of non-financial assets

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

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

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

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

(17) Provisions

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

(18) Revenue recognition

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

The Group manufactures and sells machinery. Sales are recognized when control of the goods is transferred to the customer and the goods are delivered to the customers. The main product of the Group is 3C electronic products and revenue is recognized based on the consideration stated in the contract.

The credit period of the Group's sale of goods is from 90 to 150 days. For all of the contracts, when the Group transfers the goods to customers and has a right to an amount of consideration that is unconditional, these contracts are recognized as trade receivables. The Group usually collects the payments shortly after transfer of goods to customers; therefore, there is no significant financing component to the contract.

However, for some rendering of services contracts, part of the consideration was received from customers upon signing the contract, and the Group has the obligation to provide the services subsequently; accordingly, these amounts are recognized as contract liabilities.

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

(19) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(20) Share-based payment transactions

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

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

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

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

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

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

(21) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the statement of comprehensive income over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grant.

(22) Post-employment benefits

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

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

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

- A. the date of the plan amendment or curtailment, and
- B. the date that the Group recognizes restructuring-related costs

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

(23) Income taxes

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

Current income tax

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

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

Deferred tax

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

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

- A. where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- B. in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

(24) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and are classified under administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IFRS 9 Financial Instruments either in profit or loss or as a change to other comprehensive income. However, if the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purpose and is not larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation. Goodwill disposed of in this circumstance is measured based on the relative recoverable amounts of the operation disposed of and the portion of the cash-generating unit retained.

5. Significant accounting judgements, estimates and assumptions

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Fair value of financial instruments

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

(2) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 6.

(3) Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Please refer to Note 6 for more details.

(4) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 6.

(5) Revenue recognition – sales returns and allowance

The Group estimates sales returns and allowance based on historical experience and other known factors at the time of sale, which reduces the operating revenue. In assessing the aforementioned sales returns and allowance, revenue is recognized to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Please refer to Note 6 for more details.

(6) Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognized for all carryforward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

(7) Accounts receivables—estimation of impairment loss

The Group estimates the impairment loss of accounts receivables at an amount equal to lifetime expected credit losses. The credit loss is the present value of the difference between the contractual cash flows that are due under the contract (carrying amount) and the cash flows that expects to receive (evaluate forward looking information). However, as the impact from the discounting of short-term receivables is not material, the credit loss is measured by the undiscounted cash flows. Where the actual future cash flows are lower than expected, a material impairment loss may arise. Please refer to Note 6 for more details.

(8) Inventories

Estimates of net realisable value of inventories take into consideration that inventories may be damaged, become wholly or partially obsolete, or their selling prices have declined. The estimates are based on the most reliable evidence available at the time the estimates are made.

6. Contents of significant accounts

(1) Cash and cash equivalents

	31 Dec 2019	31 Dec 2018
Cash on hand and demand deposits	\$8,067,062	\$6,719,596
Time deposits	87,494	56,381
Total	\$8,154,556	\$6,775,977

(2) Financial assets measured at amortized cost, current

	31 Dec 2019	31 Dec 2018
Bank deposits	\$349,340	\$447,683

The Group classified certain financial assets as financial assets measured at amortized cost. Please refer to Note 8 for more details on financial assets measured at amortized cost under pledge and Note 12 for details on credit risk and assessment of impairment loss.

(3) Notes receivable, net

A.

	31 Dec 2019	31 Dec 2018
Notes receivable	\$554,364	\$435,635
Less: loss allowance	(2,412)	(2,111)
Total	\$551,952	\$433,524

B. Notes receivables arised from operating activities and were not pledged.

C. The Group follows the requirement of IFRS 9 to assess the impairment. The Group measures the loss allowance of its note receivables at an amount equal to lifetime expected credit losses. The movement in the provision for impairment of note receivables is as follows:

D. Movement of the loss allowance table:

	Loss allowance
As of 1 Jan 2019	\$2,111
Charge for the current period	406
Foreign exchange adjustments	(105)
As of 31 Dec 2019	\$2,412
As of 1 Jan 2018	\$2,406
(Reversal) for the current period	(285)
Foreign exchange adjustments	(10)
As of 31 Dec 2018	\$2,111

(4) Accounts receivable, net

A.

	31 Dec 2019	31 Dec 2018
Account receivables	\$7,053,893	\$5,102,186
Less: loss allowance	(156,055)	(130,278)
Subtotal	\$6,897,838	\$4,971,908
Accounts receivable-related parties	—	—
Total	\$6,897,838	\$4,971,908

B. Accounts receivables were not pledged.

- C. Trade receivables are generally on 90-150 day terms. The total carrying amount as of December 31, 2019 and December 31, 2018 were \$7,053,893 thousand and \$5,102,186 thousand, respectively. The Group follows the requirement of IFRS 9 to assess the impairment, measure the loss allowance of its trade receivables at an amount equal to lifetime expected credit losses, consider the grouping of note receivables by counterparties' credit rating, by geographical region and by industry sector, and its loss allowance is recognized based on expected loss ratio, details are as follow. Please refer to Note 12 for more details on credit risk management.

	Neither past due nor impaired	Past due but not impaired			Total
		31~90 days	91~180 days	>=181 days	
Gross carrying amount	\$7,032,630	\$8,004	\$6,704	\$6,555	\$7,053,893
Loss ratio	0%~5%	1%~10%	5%~20%	50%~100%	
Lifetime expected credit losses	149,357	80	335	6,283	156,055
Subtotal	<u>\$6,883,273</u>	<u>\$7,924</u>	<u>\$6,369</u>	<u>\$272</u>	<u>\$6,897,838</u>

- D. Movement of the loss allowance table:

	Collectively impaired	Total
As of 1 Jan 2019	\$130,278	\$130,278
Charge for the current period	28,354	28,354
Foreign exchange adjustments	(2,577)	(2,577)
As of 31 Dec 2019	<u>\$156,055</u>	<u>\$156,055</u>
As of 1 Jan 2018	\$139,311	\$139,311
(Reversal) for the current period	(7,982)	(7,982)
Foreign exchange adjustments	(1,051)	(1,051)
As of 31 Dec 2018	<u>\$130,278</u>	<u>\$130,278</u>

- E. Ageing analysis of accounts receivables and accounts receivables-related parties that are past due as of the end of the reporting period but not impaired is as follows:

As of	Neither past due nor impaired	Past due but not impaired			Total
		31~90 days	91~180 days	>=181 days	
31 Dec 2019	\$6,883,273	\$7,924	\$6,369	\$272	\$6,897,838
31 Dec 2018	\$4,925,935	\$40,431	\$5,127	\$415	\$4,971,908

- F. The Group entered into a factoring agreement with the following banks to sell its accounts receivable. Under the agreement, the Group is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute. The Group does not have any continuing involvement in the transferred accounts receivable. Thus, the Group derecognized the transferred accounts receivable.

As of 31 December 2019 and 2018, other receivables from banks incurred by accounts receivable factoring amounted to NT\$339,694 thousand and NT\$302,836 thousand, respectively.

As of 31 December 2019 and 31 December 2018, the relevant information of accounts receivable factored and derecognised by the Group is as follows:

(a) 31 December 2019:

Accounts receivable factoring not yet due	Amount received (in thousands)	Retention (recognized as other receivables) (in thousands)	Credit Limit (in thousands)
USD 111,635	USD 100,304	USD 11,331	USD 116,600

(b) 31 December, 2018:

Accounts receivable factoring not yet due	Amount received (in thousands)	Retention (recognized as other receivables) (in thousands)	Credit Limit (in thousands)
USD 97,902	USD 88,043	USD 9,859	USD 116,600

(5) Other receivables and other receivables-related parties

A.

	2019.12.31	2018.12.31
Tax refund receivable	\$47,637	\$66,688
Other receivables	476,523	379,404
Less: loss allowance	(31,367)	(32,439)
Subtotal	492,793	413,653
Other receivables — related parties	24,067	17,423
Total	\$516,860	\$431,076

- B. The Group follows the requirement of IFRS 9 to assess the impairment. The Group measures the loss allowance of its other receivables at an amount equal to lifetime expected credit losses, considers the grouping of note receivables by counterparties' credit rating, by geographical region and by industry sector and its loss allowance is recognized based on expected loss ratio, details are as follow. Please refer to Note 12 for more details on credit risk management.

C. Movement of the loss allowance table:

	Individually impaired	Collectively impaired	Total
As of 1 Jan 2019	\$18,696	\$13,743	\$32,439
Charge for the current period	—	628	628
Foreign exchange adjustments	(698)	(1,002)	(1,700)
As of 31 Dec 2019	\$17,998	\$13,369	\$31,367
As of 1 Jan 2018	\$19,085	\$17,040	\$36,125
(Reversal) for the current period	—	(2,330)	(2,330)
Foreign exchange adjustments	(389)	(967)	(1,356)
As of 31 Dec 2018	\$18,696	\$13,743	\$32,439

Impairment loss that was individually determined for the years ended 31 December 2019 and 2018, arose due to the fact that the counterparty was in financial difficulties. The amount of impairment loss recognized was the difference between the carrying amount of other receivables and the present value of its expected recoverable amount. The Group does not hold any collateral for such receivables.

(6) Inventories

A.

	31 Dec 2019	31 Dec 2018
Raw materials	\$1,521,259	\$2,183,012
Work in progress	875,340	770,277
Finished goods	5,868,116	4,601,423
Total	<u>\$8,264,715</u>	<u>\$7,554,712</u>

B. Expenses and losses incurred on inventories for the years ended 31 December 2019 and 2018 were as follows:

	2019	2018
Cost of inventories sold	\$31,445,561	\$25,364,522
Loss on inventory valuation	522,784	125,026
Loss on disposal of Inventory	251,801	129,765
Cost of goods sale	<u>\$32,220,146</u>	<u>\$25,619,313</u>

No inventories were pledged.

(7) Financial assets at fair value through other comprehensive income, noncurrent

	31 Dec 2019	31 Dec 2018
Debt instrument investments measured at fair value through other comprehensive income – Non-current:		
Unlisted companies stocks	<u>\$111,835</u>	<u>\$112,069</u>

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

(8) Investments accounted for under the equity method

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

	31 Dec 2019		31 Dec 2018	
Investees	Carrying amount	Percentage of ownership (%)	Carrying amount	Percentage of ownership (%)
Investments in associates:				
ZIMAG TECHNOLOGY CO., INC. (Note 1)	\$38,857	9.53%	\$38,723	9.53%
FURUKAWA AVC ELECTRONICS (SUZHOU) CO., LTD.	95,022	30.00%	98,770	30.00%
ZHUZHOU CRRC-AVC THERMAL TECHNOLOGY CO., LTD.	147,071	45.00%	147,208	45.00%
KEY APPLICATION TECHNOLOGY CO., LTD. (Note 2)	8,955	16.31%	8,944	16.31%
Total	<u>\$289,905</u>		<u>\$293,645</u>	

Note 1: The Group evaluated and concluded that it has significant influence over Innovision, thus, this investment of the Group used the equity method for evaluation.

Note 2: The Group evaluated and concluded that it has significant influence over Innovision, thus, this investment of the Group used the equity method for evaluation.

Certain investments accounted for under the equity method were audited by other independent accountants. Shares of profit or loss of these associates amounted to NT\$5,565 thousand and NT\$4,597 thousand for the years ended 31 December 2019 and 2018, respectively. Share of other comprehensive income (loss) of these associates amounted to (NT\$412) thousand and (NT\$3,798) thousand for the years ended 31 December 2019 and 2018, respectively. The balances of investments accounted for under the equity method were NT\$251,048 thousand and NT\$254,922 thousand as of 31 December 2019 and 2018, respectively.

None of the aforementioned associates were pledged.

B. Financial information of associates:

There is no individually significant associate for the Group. When an associate is a foreign operation, and the functional currency of the foreign entity is different from the Group, an exchange difference arising from translation of the foreign entity will be recognized in other comprehensive income (loss).

The aggregate financial information of the Group's investments in its joint ventures is as follows:

	For the years ended	
	31 Dec 2019	31 Dec 2018
Net income	\$8,838	\$9,718
Other comprehensive income (loss)	(851)	(3,980)
Total comprehensive income	\$7,987	\$5,738

(9) Property, plant and equipment

	31 Dec 2019	31 Dec 2018(Note)
Owner occupied property, plant and equipment	\$6,712,042	

(Note) : The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

A. Owner occupied property, plant and equipment (applicable under IFRS 16 requirements)

	Land	Buildings	Machinery and equipment	Molding equipment	Other facilities	Construction in progress and equipment awaiting examination	Total
Cost:							
As of 1 Jan 2019	\$167,151	\$3,407,966	\$4,540,514	\$782,359	\$2,346,209	\$191,736	\$11,435,935
Additions	—	—	1,150,519	98,842	433,051	(22,868)	1,659,544
Exchange differences	—	(113,767)	(298,467)	(27,543)	(90,253)	(2,698)	(532,728)
Other changes	—	29,120	(372,452)	(45,679)	(292,675)	—	(681,686)
As of 31 Dec 2019	<u>\$167,151</u>	<u>\$3,323,319</u>	<u>\$5,020,114</u>	<u>\$807,979</u>	<u>\$2,396,332</u>	<u>\$166,170</u>	<u>\$11,881,065</u>
Depreciation and impairment:							
As of 1 Jan 2019	—	\$650,631	\$2,324,116	\$673,989	\$1,377,936	—	\$5,026,672
Depreciation	—	118,107	400,957	91,771	339,177	—	950,012
Exchange differences	—	(20,576)	(187,061)	(23,951)	(54,973)	—	(286,561)
Other changes	—	13,938	(246,057)	(45,679)	(243,302)	—	(521,100)
As of 31 Dec 2019	<u>—</u>	<u>\$762,100</u>	<u>\$2,291,955</u>	<u>\$696,130</u>	<u>\$1,418,838</u>	<u>—</u>	<u>\$5,169,023</u>
Net carrying amount as of:							
As of 31 Dec 2019	<u>\$167,151</u>	<u>\$2,561,219</u>	<u>\$2,728,159</u>	<u>\$111,849</u>	<u>\$977,494</u>	<u>\$166,170</u>	<u>\$6,712,042</u>

(Note) : The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

B. Property, plant and equipment (prior to the application of IFRS 16)

	Land	Buildings	Machinery and equipment	Molding equipment	Other facilities	Construction in progress and equipment awaiting examination	Total
Cost:							
As of 1 Jan 2018	\$167,151	\$1,363,629	\$3,877,003	\$693,131	\$2,120,117	\$2,386,320	\$10,607,351
Additions	—	2,174,511	1,042,666	113,544	453,791	(2,215,156)	1,569,356
Exchange differences	—	(64,247)	(91,558)	(2,938)	(36,844)	20,572	(175,015)
Other changes	—	(65,927)	(287,597)	(21,378)	(190,855)	—	(565,757)
As of 31 Dec 2018	<u>\$167,151</u>	<u>\$3,407,966</u>	<u>\$4,540,514</u>	<u>\$782,359</u>	<u>\$2,346,209</u>	<u>\$191,736</u>	<u>\$11,435,935</u>
Depreciation and impairment:							
As of 1 Jan 2018	—	\$536,007	\$2,308,455	\$632,401	\$1,328,492	—	\$4,805,355
Depreciation	—	111,790	339,175	65,226	261,509	—	777,700
Exchange differences	—	9,515	(53,876)	(2,495)	(27,234)	—	(74,090)
Other changes	—	(6,681)	(269,638)	(21,143)	(184,831)	—	(482,293)
As of 31 Dec 2018	<u>—</u>	<u>\$650,631</u>	<u>\$2,324,116</u>	<u>\$673,989</u>	<u>\$1,377,936</u>	<u>—</u>	<u>\$5,026,672</u>
Net carrying amount as of:							
31 Dec 2018	<u>\$167,151</u>	<u>\$2,757,335</u>	<u>\$2,216,398</u>	<u>\$108,370</u>	<u>\$968,273</u>	<u>\$191,736</u>	<u>\$6,409,263</u>

Please refer to Note 8 for more details on property, plant and equipment under pledge.

(10) Investment property

	Land	Buildings	Total
Cost :			
As of 1 Jan 2019	\$8,769	\$279,145	\$287,915
Exchange differences	—	(3,481)	(3,481)
Other changes	—	(35,041)	(35,041)
As of 31 Dec 2019	<u>\$8,769</u>	<u>\$240,624</u>	<u>\$249,393</u>
As of 1 Jan 2018	\$8,769	\$253,254	\$262,023
Exchange differences	—	(1,374)	(1,374)
Other changes	—	27,266	27,266
As of 31 Dec 2018	<u>\$8,769</u>	<u>\$279,146</u>	<u>\$287,915</u>
Depreciation and impairment:			
As of 1 Jan 2019	—	\$105,735	\$105,735
Depreciation	—	4,657	4,657
Exchange differences	—	(471)	(471)
Other changes	—	(14,681)	(14,681)
As of 31 Dec 2019	<u>—</u>	<u>\$95,240</u>	<u>\$95,240</u>
As of 1 Jan 2018	—	\$98,112	\$98,112
Depreciation	—	5,287	5,287
Exchange differences	—	(160)	(160)
Other changes	—	2,496	2,496
As of 31 Dec 2018	<u>—</u>	<u>\$105,735</u>	<u>\$105,735</u>
Net carrying amount as at:			
As of 31 Dec 2019	<u>\$8,769</u>	<u>\$145,384</u>	<u>\$154,153</u>
As of 31 Dec 2018	<u>\$8,769</u>	<u>\$173,411</u>	<u>\$182,180</u>
	2019	2018	
Rental income from investment property	\$22,542	\$23,028	
Less: Direct operating expenses from investment property generating rental income	(6,859)	(7,495)	
Total	<u>\$15,683</u>	<u>\$15,533</u>	

Please refer to Note 8 for more details on investment property under pledge.

The investment property held by the Group is industrial land and buildings, and the fair value is equivalent to the carrying value.

(11) Intangible assets

	Computer software	Patents	License fee	Goodwill	Total
Cost:					
As of 1 Jan 2019	\$239,507	\$5,185	\$25,679	\$7,107	\$277,478
Addition	41,841	—	—	—	41,841
Exchange differences	(6,355)	—	—	—	(6,355)
Other changes	(1,430)	—	—	—	(1,430)
As of 31 Dec 2019	<u>\$273,563</u>	<u>\$5,185</u>	<u>\$25,679</u>	<u>\$7,107</u>	<u>\$311,534</u>
As of 1 Jan 2018	\$125,793	\$5,185	\$16,915	\$7,107	\$155,000
Addition	116,565	—	8,764	—	125,329
Exchange differences	(1,713)	—	—	—	(1,713)
Other changes	(1,138)	—	—	—	(1,138)
As of 31 Dec 2018	<u>\$239,507</u>	<u>\$5,185</u>	<u>\$25,679</u>	<u>\$7,107</u>	<u>\$277,478</u>
Amortization and impairment:					
As of 1 Jan 2019	\$107,149	\$5,185	\$12,948	\$7,107	\$132,389
Amortization	37,120	—	4,033	—	41,153
Exchange differences	(3,213)	—	—	—	(3,213)
Other changes	(437)	—	—	—	(437)
As of 31 Dec 2019	<u>\$140,619</u>	<u>\$5,185</u>	<u>\$16,981</u>	<u>\$7,107</u>	<u>\$169,892</u>
As of 1 Jan 2018	\$93,907	\$4,694	\$8,834	\$7,107	\$114,542
Amortization	15,623	491	4,114	—	20,228
Exchange differences	(1,244)	—	—	—	(1,244)
Other changes	(1,137)	—	—	—	(1,137)
As of 31 Dec 2018	<u>\$107,149</u>	<u>\$5,185</u>	<u>\$12,948</u>	<u>\$7,107</u>	<u>\$132,389</u>
Net carrying amount as at:					
31 Dec 2019	<u>\$132,944</u>	<u>—</u>	<u>\$8,698</u>	<u>—</u>	<u>\$141,642</u>
31 Dec 2018	<u>\$132,358</u>	<u>—</u>	<u>\$12,731</u>	<u>—</u>	<u>\$145,089</u>

Amortization expense of intangible assets under the statement of comprehensive income:

	2019	2018
Operating costs	<u>\$2,050</u>	<u>\$493</u>
Operating expenses	<u>\$39,103</u>	<u>\$19,735</u>

(12) Other non-current assets

	31 Dec 2019	31 Dec 2018
Long-term prepaid rent	(Note)	\$580,504
Advance payments in equipments	\$511,387	546,121
Advance payments in investments	—	9,050
Refundable deposits	167,567	28,517
Other non-current assets - other	3,960	4,699
Total	\$682,914	\$1,168,891

(Note) : The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

Please refer to Note 8 for more details on other non-current assets under pledge.

(13) Short-term borrowings

A.

	31 Dec 2019	31 Dec 2018
Unsecured bank loans	\$2,000,456	\$1,610,194

B. Interest rate ranges are within 0.8648%~3.9966% and 0.86%~3.85% as of 31 December 2019 and 2018, respectively.

C. The Group's unused short-term lines of credits amounted to NT\$6,287,833 thousand and NT\$5,486,644 thousand as of 31 December 2019 and 2018, respectively.

(14) Short-term notes and bills payable

	31 Dec 2019	31 Dec 2018
Commercial paper payable	\$100,000	—
Annual interest rate	0.54%	—

(15) Long-term borrowings

	31 Dec 2019	31 Dec 2018	Redemption
Unsecured Long-Term Loan from Taiwan Cooperative Bank	\$120,000	\$200,000	Effective 4 Jun 2016 to 4 Jun 2021. Principal is repaid in 20 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Taishin International Bank	—	125,000	Effective 16 Mar 2018 to 16 Mar 2020. Medium-term loan of NT\$150,000 thousand: interest-only for 18 months from the first date of allocation. Principal and interest are repaid in 6 quarterly payments.

	31 Dec 2019	31 Dec 2018	Redemption
Unsecured Long-Term Loan from Land Bank of Taiwan	—	\$133,332	Effective 25 Apr 2018 to 25 Apr 2020. Three-year loan: principal is repaid in monthly payments with interest.
Unsecured Long-Term Loan from E. Sun Bank	—	150,000	Effective 12 Jun 2018 to 12 Jun 2020. Three-year loan: interest-only payment for the first year. Principal is repaid in 8 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Taiwan Business Bank	\$91,667	191,666	Effective 16 Nov 2018 to 16 Nov 2020. Three-year loan: principal is repaid in monthly payments. Interest payments are calculated on current principal amount.
Unsecured Long-Term Loan from CTBC Bank	—	200,000	Revolving credit for 3 years from the first day of allocation 1 Dec 2018.
Unsecured Long-Term Loan from Kgi Bank	—	300,000	Revolving credit for 2 years from the first day of allocation 14 Dec 2018.
Unsecured Long-Term Loan from Mega International Commercial Bank	160,000	320,000	Three-year loan: first period begins 9 months after first allocation. Principal is repaid in 10 quarterly payments (principal NT\$40,000 thousand for each period) with monthly interest payments.
Unsecured Long-Term Loan from Taiwan Cooperative Bank	195,000	255,000	Effective 23 Jan 2019 to 23 Jan 2023. Principal is repaid in 20 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Shanghai Commercial & Savings Bank	150,000	270,000	Effective 5 Mar 2019 to 5 Mar 2021. Three-year loan: interest-only for 6 months from the first date of allocation. Principal and interest are repaid in 10 quarterly payments.
Unsecured Long-Term Loan from Land Bank of Taiwan	—	233,333	Effective 2 Apr 2019 to 2 Apr 2021. Three-year loan: principal is repaid in monthly payments with interest.
Unsecured Long-Term Loan from First Commercial Bank	133,333	233,333	Effective 18 Apr 2019 to 18 Apr 2021. Three-year loan: principal is repaid in monthly payments with monthly interest payments.

	31 Dec 2019	31 Dec 2018	Redemption
Unsecured Long-Term Loan from HSBC	\$225,000	\$300,000	Effective 21 May 2019 to 21 May 2021. Three-year loan: first period begins 18 months after first allocation. Principal is repaid in 4 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Taipei Fubon Bank	300,000	300,000	Effective 20 Jun 2019 to 20 Jun 2021. Three-year loan: first period begins 18 months after first allocation. Principal is repaid in 6 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Taishin International Bank	—	200,000	Three-year FRCP: first issued on 21 Jun, 2019. The full issuance of the agreement during the effective period(issued and guaranteed by Taishin Bank).
Unsecured Long-Term Loan from Hua Nan Bank	222,222	355,556	Effective 1 Aug 2019 to 1 Aug 2021. Three-year loan: principal is repaid in monthly payments with monthly interest payments.
Unsecured Long-Term Loan from Jih Sun Bank	—	175,000	Effective 6 Aug 2019 to 6 Aug 2020. Two-year loan: principal is repaid in 8 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Yuanta Commercial Bank	480,000	600,000	Effective 7 Sep 2019 to 7 Sep 2021. Three-year loan: split loan is available. The first period begins at the expiration date of interest-only. Principal is repaid in 9 quarterly payments with monthly interest payments. Payments 1 to 8 are for NT\$60,000 thousand, and the final payment is for NT\$120,000 thousand.
Unsecured Long-Term Loan from Cathay United Bank	—	100,000	Effective 12 Sep 2019 to 12 Sep 2020. Two-year loan: split loan is available. Principal is repaid in due date with monthly interest payments.

	31 Dec 2019	31 Dec 2018	Redemption
Unsecured Long-Term Loan from Bank of Taiwan	\$479,167	\$500,000	Effective 19 Nov 2019 to 19 Nov 2021. Three-year loan: interest-only payment for the first year. Principal is repaid with monthly interest payments.
Unsecured Long-Term Loan from Chang Hwa Bank	252,778	—	Effective 18 Feb 2019 to 19 Feb 2022. Three-year loan: Principal is repaid with monthly interest payments.
Unsecured Long-Term Loan from Taiwan Business Bank	233,333	—	Effective 1 Apr 2019 to 1 Apr 2022. Three-year loan: Principal is repaid in monthly payments with monthly interest payments.
Unsecured Long-Term Loan from E. Sun Bank	200,000	—	Effective 30 May 2019 to 30 May 2022. Three-year loan: Principal is amortized on a quarterly basis, and interest is paid on a monthly basis.
Unsecured Long-Term Loan from Kgi Bank	200,000	—	Revolving credit for 2 years from the first day of allocation 24 Jun 2019.
Unsecured Long-Term Loan from Taiwan Cooperative Bank	285,000	—	Effective 3 Sep 2019 to 3 Sep 2022. Five-year loan: Principal is amortized on a quarterly basis, and interest is paid on a monthly basis.
Unsecured Long-Term Loan from DBS Bank Limited	500,000	—	Revolving credit for 2 years, but each loan cannot exceed 6 months.
Unsecured Long-Term Loan from Jih Sun Bank	300,000	—	Effective 7 Oct 2019 to 7 Oct 2022. Two-year loan: Principal is repaid in 8 quarterly payments with monthly interest payments.
Unsecured Long-Term Loan from Land Bank of Taiwan	283,333	—	Effective 18 Oct 2019 to 18 Oct 2022. Three-year loan: Principal is repaid in monthly payments with interest.
Unsecured Long-Term Loan from CTBC Bank	500,000	—	Revolving credit for 3 years from the first day of allocation 20 Nov 2019.
Unsecured Long-Term Loan from Shin Kong Bank	100,000	—	Revolving credit for 3 years from the first day of allocation 22 Aug 2018.

	31 Dec 2019	31 Dec 2018	Redemption
Unsecured Long-Term Loan from Cathay United Bank	\$300,000	—	Revolving credit for 2 years from 12 Sep 2019 to 12 Sep 2021.
Unsecured Long-Term Loan from Taishin International Bank	200,000	—	Three-year FRCP: first issued on 21 Jun, 2018. The full issuance of the agreement during the effective period(issued and guaranteed by Taishin Bank).
Unsecured Long-Term Loan from E. Sun Bank	—	\$27,953	Effective 17 Jan 2019 to 17 Apr 2021. Three-year loan: principal is repaid in monthly payments with interest.
Subtotal	5,910,833	5,170,173	
Less: Due within one year	(2,161,667)	(1,782,486)	
Total	\$3,749,166	\$3,387,687	
	2019	2018	
Interest rates	0.6777%~1.28%	0.6083%~1.38%	

(16) Long-term deferred revenue

Government grants were as follows:

	2019	2018
Beginning balance	\$828,001	\$871,500
Released to the statement of comprehensive income	(27,964)	(26,222)
Exchange differences	(29,874)	(17,277)
Ending balance	\$770,163	\$828,001

Government grants have been received for the purchase of certain items of property, plant and equipment.

(17) Post-employment benefits

A. Defined contribution plan

The Company and its domestic subsidiaries adopt a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Company and its domestic subsidiaries will make monthly contributions of no less than 6% of the employees' monthly wages to the employees' individual pension accounts. The Company and its domestic subsidiaries have made monthly contributions of 6% of each individual employee's salaries or wages to employees' pension accounts. Subsidiaries located in the People's Republic of China will contribute social welfare benefits based on a certain percentage of employees' salaries or wages to the employees' individual pension accounts.

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

Expenses under the defined contribution plan for the years ended 31 December 2019 and 2018 were NT\$27,164 thousand and NT\$25,372 thousand, respectively.

B. Defined benefits plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded for each year after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Company and its domestic subsidiaries will estimate the aforementioned Labor Pension reserve accounts balance. If the balance is insufficient for the estimated payments to employees meeting the conditions of receiving labor pension within the following year, the Company will set aside the shortfall in full by end of March in the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the regulations for revenues, expenditures, safeguard and utilization of the labor retirement fund. The pension fund is invested in-house or under a mandate, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury funds can be used to cover the deficits after the approval of the competent authority. As the Company does not participate in the operation and management of the pension fund, no disclosure on the fair value of the plan assets categorized in different classes could be made in accordance with IAS 19. The Company expects to contribute NT\$2,672 thousand to its defined benefit plan for the following 12 months as of 31 December 2019.

The durations of defined benefit obligation for the years ended 31 December 2019 and 2018 will expire in 15 years and 16 years, respectively..

Pension costs recognized in profit or loss are as follows:

	31 Dec 2019	31 Dec 2018
Current period service costs	\$1,246	\$1,185
Net interest on the net defined benefit liabilities	215	284
Total	<u>\$1,461</u>	<u>\$1,469</u>

Reconciliations of liabilities (assets) of the defined benefit obligation and plan assets at fair value are as follows:

	31 Dec 2019	31 Dec 2018
Defined benefit obligation	\$120,997	\$126,638
Plan assets at fair value	(113,615)	(107,647)
Net defined benefit liabilities	<u>\$7,382</u>	<u>\$18,991</u>

Reconciliations of liabilities (assets) of the defined benefit plan are as follows:

	Defined benefit obligation	Plan assets at fair value	Net defined benefit liabilities (assets)
As of 1 January 2018	\$118,625	(\$100,878)	\$17,747
Current service cost	1,185	—	1,185
Interest expense (income)	1,898	(1,614)	284
Subtotal	<u>121,708</u>	<u>(102,492)</u>	<u>19,216</u>
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(949)	—	(949)
Actuarial gains and losses arising from changes in financial assumptions	8,845	—	8,845
Experience adjustments	(2,966)	—	(2,966)
Remeasurements of the defined benefit assets	—	(2,417)	(2,417)
Subtotal	<u>4,930</u>	<u>(2,417)</u>	<u>2,513</u>
Contribution by employer	<u>—</u>	<u>(2,738)</u>	<u>(2,738)</u>
As of 31 December 2018	\$126,638	(\$107,648)	\$18,991
Current service cost	1,246	—	1,246
Interest expense (income)	1,432	(1,217)	215
Subtotal	<u>129,316</u>	<u>(108,864)</u>	<u>20,452</u>
Remeasurements of the defined benefit liabilities/assets:			
Actuarial gains and losses arising from changes in demographic assumptions	(2,142)	—	(2,142)
Actuarial gains and losses arising from changes in financial assumptions	5,798	—	5,798
Experience adjustments	(10,445)	—	(10,445)
Remeasurements of the defined benefit assets	—	(3,609)	(3,609)
Subtotal	<u>(6,789)</u>	<u>(3,609)</u>	<u>(10,398)</u>
Payments from the plan	<u>(1,530)</u>	<u>1,530</u>	<u>—</u>
Contribution by employer	<u>—</u>	<u>(2,672)</u>	<u>(2,672)</u>
As of 31 December 2019	<u>\$120,997</u>	<u>(\$113,615)</u>	<u>\$7,382</u>

The principal underlying actuarial assumptions are as follows:

	31 Dec. 2019	31 Dec. 2018
Discount Rate	0.80%	1.13%
Rate of future salary Increase	2.00%	2.00%

Sensitivity analysis of each major actuarial assumption:

	2019		2018	
	Defined benefit obligations increase	Defined benefit obligations decrease	Defined benefit obligations increase	Defined benefit obligations decrease
Discount Rate increase 0.5%	—	\$8,506	—	\$9,251
Discount Rate decrease 0.5%	\$9,353	—	\$10,645	—
Future salary increase 0.5%	\$9,190	—	\$10,496	—
Future salary decrease 0.5%	—	\$8,451	—	\$9,221

(18) Equities

A. Common stock

As of 31 December 2019 and 2018, the Group's authorized capital was both NT\$4,000,000 thousand, and both issued NT\$3,533,101 thousand with 353,310 thousand shares, each at a par value of NT\$10. Each share has one voting right and a right to receive dividends.

B. Additional paid-in capital

	31 Dec 2019	31 Dec 2018
Share premium	\$1,055,607	\$1,055,607
Donated assets received	2,887	2,717
Premium from merger	443,730	443,730
Employee stock option	15,300	15,300
Share options of convertible bonds	23,293	23,293
Total	\$1,540,817	\$1,540,647

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

C. Retained earnings and dividend policies

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

- (a) Payment of all taxes and dues;
- (b) Offset prior years' operation losses;
- (c) Set aside 10% of the remaining amount after deducting items (a) and (b) as legal reserve, except for when accumulated legal reserve has reached total authorized capital.
- (d) Set aside or reverse special reserve in accordance with law and regulations; and
- (e) The distribution of the remaining portion, if any, will be recommended by the Board of Directors and resolved in the shareholders' meeting.

The policy of dividend distribution should reflect factors such as the current and future development plan, investment environment, fund requirements, domestic and international competition as well as the interest of the shareholders. A percentage of no less than 5% of the distributable profits of the accounting period shall be distributed as shareholders' dividends annually. When the accumulated distributable profits are less than 10% of our paid-up capital, we will no longer be required to make allowances for allocation. Shareholders' dividends could be paid in the form of shares or cash. Accordingly, at least 10% of the dividends must be paid in the form of cash.

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

Following the adoption of TIFRS, the FSC on 6 April 2012 issued Order No. Financial-Supervisory-Securities-Corporate-1010012865, which sets out the following provisions for compliance:

On a public company's first-time adoption of the TIFRS, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded to shareholders' equity that the company elects to transfer to retained earnings by application of the exemption under IFRS 1, the company shall set aside an equal amount of special reserves. Following a company's adoption of the TIFRS for the preparation of its financial reports, when distributing distributable earnings, it shall set aside to special reserves, from the profit/loss of the current period and the undistributed earnings from the previous period. The amount should equal to "other net deductions from shareholders' equity for the current fiscal year, provided that the company has already set aside special reserves according to the requirements in the preceding point, it shall set aside supplemental special reserve based on the difference between the amount already set aside and other net deductions from shareholders' equity. For any subsequent reversal of other net deductions from shareholders' equity, the amount reversed may be distributed.

As of 31 December 2019, special reserve set aside for the first-time adoption of TIFRS amounts to \$95,481 thousand. Furthermore, the Group has not reversed special reserve during the year ended 2019 as results of the no use, disposal or reclassification of related assets.

Details of the 2019 and 2018 earnings distribution and dividends per share as approved and resolved by the Board of Directors' meeting and shareholders' meeting on March 13, 2020 and June 13, 2019, respectively, are as follows:

	Appropriation of earnings		Dividend per share (NT\$)	
	2019	2018	2019	2018
Legal reserve	\$95,797	\$71,126		
Special reserve	407,289	456,538		
Common stock -cash dividend	459,303	353,310	\$1.3	\$1

Please refer to Note 6.22 for further details on employees' compensation and remuneration to directors and supervisors.

D. Non-controlling interests

	2019	2018
Beginning balance	\$238,443	\$235,234
Profit attributable to non-controlling interests	15,124	18,586
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Exchange differences resulting from translating the financial statements of a foreign operation	(4,606)	(15,377)
Increasing in non-controlling interests	108,964	—
Ending balance	<u>\$357,925</u>	<u>\$238,443</u>

(19) Share-based payment plans

A. Share-based payment plan for employees of the Group as of 31 December 2019

Type of agreement	Grant date	Total number of options granted (in thousands)	Contract period (year)	Vesting conditions
Employee stock option plan	2019.10.08	8,000	1	Description (a)

(a) Voucher holders can exercise their full options after 6 months of issuance.

(b) The Company uses the Black-Scholes option evaluation model to estimate the fair value of the options for the share-based payment transaction. The related information is as follows:

Type of agreement	Grant date	Exercise price (NT\$)	Expected volatility (%)	Expected duration (year)	Expected dividend rate (%)	Risk-free interest rate (%)	Fair value per unit
Employee stock option plan	2019.10.08	17	28.02	1.00	0.00	1.04	2.22

B. The following table contains further details on the aforementioned share-based payment plan as of 31 December 2019:

	2019			
Stock options	Number of share options outstanding (in thousands)	Weighted average exercise price of share options (NT\$)	Range of exercise price (NT\$)	Weighted average remaining contractual life
Outstanding at beginning of period	—	—		
Forfeited	8,000	\$17		
Exercised	—	—		
Expired	—	—		
Outstanding at end of period	<u>8,000</u>	\$17	\$17	0.75 years
Exercisable at end of period	<u>8,000</u>	\$17		

C. As of the years ended December 31, 2019, the Company incurred expenses of NT\$7,104 thousand for the share-based payment transactions.

(20) Operating revenues

A. Disaggregation of revenue

	2019	2018
Sale of goods	\$36,534,445	\$29,066,591
Timing of revenue recognition:		
At a point in time	\$36,534,445	\$29,066,591

B. Contract balances

Contract liabilities - current

	2019	2018
Sale of goods	\$16,103	\$31,645

During the period, contract liabilities significantly increased as performance obligations are partially unsatisfied and \$31,645 thousand included in the contract liability balance at the beginning of the period was recognized as revenue during the period.

(21) Leases

A. Group as a lessee (applicable to the disclosure requirement under IFRS 16)

The Group leases various properties, including real estate such as land and buildings, machinery and equipment and office equipment. The lease terms range from 1 to 50 years.

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

(a) Amounts recognized in the balance sheet

I. Right-of-use assets

The carrying amount of right-of-use assets

	31 Dec 2019	31 Dec 2018 (Note)
Land	\$567,826	
Buildings	242,524	
Transportation equipment	16,308	
Office equipment	335	
Total	\$826,993	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

II. Lease liabilities

	31 Dec 2019	31 Dec 2018 (Note)
Current	\$131,016	
Non-current	140,361	
Total	\$271,377	

Please refer to Note 6.23(3) for the interest on lease liabilities recognized during the nine-month period ended 31 Dec 2019 and refer to Note 12.5 Liquidity Risk Management for the maturity analysis for lease liabilities as of 31 Dec 2019.

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

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

Depreciation charge for right-of-use assets

	2019	2018(Note)
Land	\$14,980	
Buildings	141,106	
Transportation equipment	8,129	
Office equipment	175	
Total	<u>\$164,390</u>	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(c) Income and costs relating to leasing activities

	2019	2018(Note)
The expenses relating to short-term leases	<u>\$25,385</u>	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(d) Cash outflow relating to leasing activities

During the year ended 31 December 2019, the Group's total cash outflows for leases amounting to \$147,159 thousand.

B. Operating lease commitments – Group as a lessee (applicable to the disclosure requirement in IAS 17)

The Group has signed non-cancellable operating leases. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable as of 31 December 2019 and 2018 are as follows:

	31 Dec 2019 (Note)	31 Dec 2018
Not later than one year		\$156,376
Later than one year and not later than five years		282,848
Total		<u>\$439,224</u>

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

C. Group as a lessor (applicable to the disclosure requirement in IFRS 16)

Please refer to Note 6.11 for relevant disclosure of the Group's own occupied investment property. Leases of owned investment properties are classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership of underlying assets.

	2019	2018(Note)
Lease income for operating leases		
Income relating to fixed lease payments and variable lease payments that depend on an index or a rate	<u>\$50,388</u>	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

Please refer to Note 6.10 for relevant disclosure of property, plant and equipment for operating leases under IFRS 16. For operating leases entered by the Group, the undiscounted lease payments to be received and a total of the amounts for the remaining years as of 30 September 2019 are as follow:

	31 Dec 2019	31 Dec 2019 (Note)
Not later than one year	\$16,954	
Later than one year and not later than five years	51,786	
Later than five years	<u>19,103</u>	
Total	<u>\$87,843</u>	

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

D. Operating lease commitments – Group as a lessor (applicable to the disclosure requirement in IAS 17)

The Group has entered into commercial property leases with remaining terms of between 1 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as of 31 December, 2019 and 2018 are as follows:

	31 Dec 2019 (Note)	31 Dec 2018
Not later than one year		\$18,641
Later than one year and not later than five years		55,121
Later than five years		<u>30,023</u>
Total		<u>\$103,785</u>

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(22) Summary statement of employee benefits, depreciation and amortization expenses by function:

Function Nature	2019			2018		
	Operating costs	Operating expenses	Total amount	Operating costs	Operating expenses	Total amount
Employee benefits expense						
Salaries	\$3,390,218	\$1,442,462	\$4,832,680	\$2,783,851	\$1,206,354	\$3,990,205
Labor and health insurance	\$275,609	\$104,692	\$380,301	\$237,453	\$88,311	\$325,764
Pension	\$3,641	\$24,865	\$28,506	\$2,968	\$23,799	\$26,767
Other employee benefits expense	\$76,846	\$45,281	\$122,127	\$49,066	\$38,045	\$87,111
Depreciation	\$873,702	\$245,357	\$1,119,059	\$599,485	\$183,502	\$782,987
Amortization	\$2,781	\$39,029	\$41,810	\$1,125	\$33,902	\$35,027

According to the Company's Articles of Incorporation, no less than 3% of profit of the current year is distributable as employees' compensation and no higher than 2% of profit of the current year is distributable as remuneration to directors and supervisors. However, the company's accumulated losses shall have been covered. The Company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributed as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. Information on the board of directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

Based on the profit of the current year, the Company estimated the amounts of the employees' compensation and remuneration to directors for the year ended 31 December 2019 to be NT\$44,098 thousand and NT\$18,899 thousand, respectively. The Company estimated the amounts of employees' compensation and remuneration to directors and supervisors for the year ended 31 December, 2018 to be NT\$32,302 thousand and NT\$13,844 thousand, respectively. The aforementioned amounts were recognized as employee benefits expense. If the Board of Directors resolves to distribute employees' compensation in the form of stocks, the number of stocks distributed was calculated based on the closing price of the day before the Board of Directors meeting. The difference between the estimation and the resolution of the stockholder's meeting will be recognized in profit or loss in the subsequent year.

No material differences exist between the estimated amount and the actual distribution of the employee compensation and remuneration to directors and supervisors for the year ended 31 December, 2018.

(23) Non-operating income and expenses

A. Other income

	2019	2018
Rental income	\$50,388	\$28,413
Interest income	36,935	36,183
Others	424,765	421,586
Total	<u>\$512,088</u>	<u>\$486,182</u>

B. Other gains and losses

	2019	2018
Gains (losses) on disposal of property, plant and equipment	(\$48,328)	\$6,978
(Losses) on disposal of Intangible assets (losses)	(825)	—
Gains on disposal of investments	606	—
Foreign exchange gains (losses), net	44,270	(2,046)
Others	(70,864)	(450)
Total	<u>(\$75,141)</u>	<u>\$4,482</u>

C. Finance costs

	2019	2018
Interest on borrowings from bank	\$201,430	\$188,359
Interest on lease liabilities	9,822	(Note)
Total	<u>\$211,252</u>	<u>\$188,359</u>

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(24) Components of other comprehensive income

For the year ended 31 December 2019

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	\$10,398	—	\$10,398	(\$2,079)	\$8,319
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	1,071	—	1,071	—	1,071
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(473,393)	—	(473,393)	61,277	(412,116)
Share of other comprehensive income of associates accounted for using the equity method	(851)	—	(851)	—	(851)
Total of other comprehensive income	<u>(\$462,775)</u>	<u>—</u>	<u>(\$462,775)</u>	<u>\$59,198</u>	<u>(\$403,577)</u>

For the year ended 31 December 2018

	Arising during the period	Reclassification adjustments during the period	Other comprehensive income, before tax	Income tax relating to components of other comprehensive income	Other comprehensive income, net of tax
Not to be reclassified to profit or loss in subsequent periods:					
Remeasurements of defined benefit plans	(\$2,513)	—	(\$2,513)	\$1,084	(\$1,429)
Unrealized gains (losses) from equity instruments investments measured at fair value through other comprehensive income	(8,544)	—	(8,544)	—	(8,544)
To be reclassified to profit or loss in subsequent periods:					
Exchange differences resulting from translating the financial statements of a foreign operation	(158,594)	—	(158,594)	30,435	(128,159)
Share of other comprehensive income of associates accounted for using the equity method	(3,980)	—	(3,980)	—	(3,980)
Total of other comprehensive income	<u>(\$173,631)</u>	<u>—</u>	<u>(\$173,631)</u>	<u>\$31,159</u>	<u>(\$142,112)</u>

(25) Income tax

Based on the amendments to the Income Tax Act announced on 7 February 2018, the Company's applicable corporate income tax rate for the year ended 31 December 2018 has changed from 17% to 20%. The corporate income surtax on undistributed retained earnings has changed from 10% to 5%.

A. The major components of income tax expense are as follows:

Income tax expense recognized in profit or loss

	2019	2018
Current income tax expense:		
Current income tax charge	\$558,785	\$317,746
Deferred tax expense :		
Deferred tax expense (income) relating to origination and reversal of temporary differences	(38,049)	(89,790)
Deferred tax expense relating to changes in tax rate	—	73,559
Total income tax expense	<u>\$520,736</u>	<u>\$301,515</u>

B. Income tax relating to components of other comprehensive income

	2019	2018
Deferred tax (income):		
Remeasurements of defined benefit plans	\$2,079	(\$1,084)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(61,277)	(30,435)
Income tax relating to components of other comprehensive income	<u>(\$59,198)</u>	<u>(\$31,519)</u>

C. Income tax charged directly to equity

	2019	2018
Deferred tax expense		
Deferred tax expense relating to changes in tax rate	—	\$9,541

D. A reconciliation between income tax expense and income before tax at applicable tax rate was as follows:

	2019	2018
Accounting profit before tax from continuing operations	\$1,493,829	\$1,031,362
Using related country's statutory income tax rate	\$578,663	\$351,826
Tax effect of expenses not deductible for tax purposes	(23,317)	(50,158)
Surtax on undistributed retained earnings	12,017	30,868
Adjustments in respect of current income tax of prior periods	(46,627)	(31,021)
Total income tax expense recognized in profit or loss	\$520,736	\$301,515

E. Deferred tax assets (liabilities) relate to the following:

For the year ended 31 December 2019

	Beginning balance as of 1 Jan 2019	Deferred tax income (expense) recognized in profit or loss	Deferred tax income recognized in other comprehensive income	Deferred tax (expense) charged directly to equity	Ending balance as of 31 December 2019
Temporary differences					
Allowance for bad debts	\$10,993	\$1,163	—	—	\$12,156
Allowance for losses on inventory	10,702	23,245	—	—	33,947
Unrealized profit on intercompany sales	12,656	30,015	—	—	42,671
Unrealized exchange gains (losses)	61	8,509	—	—	8,570
Investments accounted for under the equity method	(646,653)	(120,928)	\$61,277	—	(706,304)
Net defined benefit liabilities, noncurrent	3,798	(242)	(2,079)	—	1,477
Others	256,399	90,231	—	—	346,630
Unused tax losses	33,752	6,056	—	—	39,808
Deferred tax (expense)/ income		\$38,049	\$59,198	—	
Net deferred tax (liabilities)	<u>(\$318,292)</u>				<u>(\$221,045)</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$513,266</u>				<u>\$731,496</u>
Deferred tax liabilities	<u>(\$831,558)</u>				<u>(\$952,541)</u>

For the year ended 31 December 2018

		Deferred tax	Deferred tax	Deferred tax	Ending balance
		income	income	Deferred tax	
	Beginning	(expense)	recognized in	(expense)	as of 31
	balance as of 1	recognized in	comprehensive	charged directly	December
	Jan 2018	profit or loss	income	to equity	2018
Temporary differences					
Allowance for bad debts	\$9,072	\$1,921	—	—	\$10,993
Allowance for losses on inventory	7,121	3,581	—	—	10,702
Unrealized profit on intercompany sales	12,003	653	—	—	12,656
Unrealized exchange (losses)	(3,755)	3,816	—	—	61
Investments accounted for under the equity method	(577,403)	(90,159)	\$30,435	(\$9,526)	(646,653)
Net defined benefit liabilities, noncurrent	3,017	(303)	1,084	—	3,798
Others	169,937	86,477	—	(15)	256,399
Unused tax losses	23,507	10,245	—	—	33,752
Deferred tax (expense)/ income		\$16,231	\$31,519	(\$9,541)	
Net deferred tax (liabilities)	<u>(\$356,501)</u>				<u>(\$318,292)</u>
Reflected in balance sheet as follows:					
Deferred tax assets	<u>\$383,939</u>				<u>\$513,266</u>
Deferred tax liabilities	<u>(\$740,440)</u>				<u>(\$831,558)</u>

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

Year	Tax losses for the period	Unused tax losses as at		Expiration year
		31 Dec 2019	31 Dec 2018	
2011	99,628	\$49,864	\$65,823	2021
2012	128,940	82,378	82,378	2022
2013	61,658	26,386	26,386	2023
2014	49,292	36,348	44,650	2024
2016	31	31	31	2026
2017	3,684	3,684	21	2027
2018	160	160	—	2028
2019	188	188	—	2029
		<u>\$199,039</u>	<u>\$219,289</u>	

G. Unrecognized deferred tax assets

As of 31 December 2018, deferred tax assets that have not been recognized amount to NT\$10,106 thousand.

H. The assessment of income tax returns

The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

(26) Earnings per share

	2019		
	Amount	Number of shares (shares in thousands)	Earnings per share
Basic earnings per share			
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$957,969	353,310	\$2.71
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	—	1,120	
Diluted earnings per share			
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$957,969	354,430	\$2.70
2018			
	2018		
	Amount	Number of shares (shares in thousands)	Earnings per share
Basic earnings per share			
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$711,261	353,310	\$2.01
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	—	1,279	
Diluted earnings per share			
Profit attributable to ordinary equity holders of the Company (in thousand NT\$)	\$711,261	354,589	\$2.00

7. Related party transactions

- (1) Information of the related parties that had transactions with the Group during the financial reporting period is as follows:

Name of related parties	Nature of relationship of the related parties
FURUKAWA ELECTRIC (SHENZHEN) CO., LTD.	Other related parties

- (2) Significant transactions with the related parties

A. Sales

	2019	2018
Other related parties	—	\$66

The sales prices and collection terms to related parties were not significantly different from those of sales to non-related parties. The sales price to other related parties was determined through mutual agreement in reference to market conditions.

B. Purchases

	2019	2018
Other related parties	\$302	\$174

The payment terms from the related party suppliers are comparable with third party suppliers.

C. Other receivable -related parties

	31 Dec 2019	31 Dec 2018
Other related parties	\$24,067	\$17,423

D. Key management personnel compensation

	2019	2018
Short-term employee benefits	\$40,318	\$33,917
Post-employment benefits	540	540
Total	\$40,858	\$34,457

8. Assets pledged as security

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

Assets pledged for security	Carrying amount	
	31 Dec 2019	31 Dec 2018
Financial assets measured at amortized cost	\$349,340	\$447,683
Land	88,235	88,235
Buildings	108,739	80,963
Investment property	54,246	99,425
Refundable deposits	2,800	1,300
Total	\$603,360	\$717,606

9. Commitments and contingencies

(1) Legal claim contingency : None

(2) Other

The Group guaranteed a deposit for customs in the amount of NT\$2,500 thousand and NT\$300 thousand from Bank of Taiwan and Taiwan Cooperative Bank, respectively.

10. Losses due to major disasters

None.

11. Significant subsequent events

None.

12. Financial instruments

(1) Categories of financial instruments

Financial assets

	31 Dec 2019	31 Dec 2018
Financial assets at fair value through other comprehensive income	\$111,835	\$112,069
Financial assets measured at amortized cost		
Cash and cash equivalents (excluding cash on hand)	8,146,264	6,768,914
Financial assets measured at amortized cost	349,340	447,683
Amounts receivables	7,966,650	5,836,508
Subtotal	16,462,254	13,053,105
Total	\$16,574,089	\$13,165,174

Financial liabilities

	31 Dec 2019	31 Dec 2018
Financial liabilities at amortized cost:		
Short-term loans	\$2,000,456	\$1,610,194
Short-term notes and bills payable	100,000	—
Amounts payables	15,523,048	12,438,972
Lease payable	(Note)	19
Lease liabilities (including current portion)	271,377	(Note)
Long-term loans (including current portion)	5,910,833	5,170,173
Total	\$23,805,714	\$19,219,358

(Note): The Group adopted IFRS 16 since January 1, 2019. The Group elected not to restate prior periods in accordance with the transition provision in IFRS 16.

(2) Financial risk management objectives and policies

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

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

(3) Market risk

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

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

A. Foreign currency risk

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

The Group has certain foreign currency receivables to be denominated in the same foreign currency with certain foreign currency payables, therefore forming a natural hedge. Furthermore, as net investments in foreign subsidiaries are for strategic purposes, they are not hedged by the Group.

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

- (a) When NTD strengthens/weakens against USD by 1%, the profit for 2019 and 2018 is decreased/increased by NT\$28,404 thousand and NT\$8,338 thousand, respectively.
- (b) When NTD strengthens/weakens against RMB by 1%, the profit for 2019 and 2018 is increased/decreased by NT\$20,866 thousand and decreased/increased by NT\$5,271 thousand, respectively.

B. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to bank borrowings with fixed interest rates and variable interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable loans and borrowings and entering into interest rate swaps. Hedge accounting does not apply to these swaps as they do not qualify for it.

The interest rate sensitivity analysis is performed on items exposed to interest rate risk as at the end of the reporting period. A change of 10 basis points of interest rate in a reporting period could cause the profit for 2019 and 2018 to decrease/increase by NT\$652 thousand and NT\$465 thousand, respectively.

C. Equity price risk

The fair value of the Group's unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's unlisted equity securities are classified as financial assets at fair value through other comprehensive income.

The equity price sensitivity analysis is based on fair value changes as at the end of the reporting period. For the years ended 30 September 2019 and 2018, a change of 5% in the price classified as equity instruments investments measured at fair value through other comprehensive income could cause the other comprehensive income to decrease/increase by NT\$5,592 thousand and NT\$5,603 thousand, respectively.

Please refer to Note 12.8 for sensitivity analysis information of other equity instruments or derivatives that are linked to such equity instruments whose fair value measurement is categorized under Level 3.

(4) Credit risk management

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

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

As of 31 December 2019 and 2018, amounts receivables from top ten customers represent 88.70% and 74.81% of the total accounts receivables of the Group, respectively. The credit concentration risk of other accounts receivables is insignificant.

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

(5) Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents and bank borrowings. The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments and contractual maturity. The payment amount includes the contractual interest. The undiscounted payment relating to borrowings with variable interest rates is extrapolated based on the estimated interest rate yield curve as of the end of the reporting period.

Non-derivative financial liabilities

	< 1 year	2 to 3 years	4 to 5 years	> 5 years	Total
As of 31 December 2019					
Loans	\$4,174,884	\$3,629,166	\$120,000	—	\$7,924,050
Short-term notes and bills payable	\$100,000	—	—	—	\$100,000
Amounts payables	\$15,510,287	—	—	—	\$15,510,287
Lease liabilities	\$131,016	\$133,289	\$2,980	\$4,092	\$271,377
As of 31 December, 2018					
Loans	\$3,409,816	\$3,312,687	\$75,000	—	\$6,797,503
Amounts payables	\$12,421,855	—	—	—	\$12,421,855

(6) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities for 2019:

	Short-term borrowings	Short-term notes and bills payable	Long-term borrowings	Lease liabilities	Guarantee deposits	Total liabilities from financing activities
As at 1 Jan 2019	\$1,610,194	—	\$5,170,173	\$19	\$17,076	\$6,797,462
Cash flows	425,967	\$100,000	740,660	(147,159)	1,935	1,121,403
Non-cash changes	(35,705)	—	—	418,517	—	382,812
As at 31 Dec 2019	\$2,000,456	\$100,000	\$5,910,833	\$271,377	\$19,011	\$8,301,677

Reconciliation of liabilities for 2018:

	Short-term borrowings	Long-term borrowings	Guarantee deposits	Total liabilities from financing activities
As at 1 Jan 2018	\$1,650,967	\$4,120,735	\$4,714	\$5,776,416
Cash flows	(68,273)	1,049,438	12,362	993,527
Non-cash changes	27,500	—	—	27,500
As at 31 Dec 2018	\$1,610,194	\$5,170,173	\$17,076	\$6,797,443

(7) Fair values of financial instruments

A. The methods and assumptions applied in determining the fair value of financial instruments:

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

- (a) The carrying amount of cash and cash equivalents, accounts receivables, accounts payable and other current liabilities approximate their fair value due to their short maturities.
- (b) Fair value of equity instruments without market quotations (including private placement of listed equity securities, unquoted public company and private company equity securities) are estimated using the market method valuation techniques based on parameters such as prices based on market transactions of equity instruments of identical or comparable entities and other relevant information (for example, inputs such as discount for lack of marketability, P/E ratio of similar entities and Price-Book ratio of similar entities).

B. Fair value of financial instruments measured at amortized cost

The carrying amount of financial assets and financial liabilities measured at amortized cost approximate their fair value due to their short maturities.

C. Fair value measurement hierarchy for financial instruments

Please refer to Note 12.8 for fair value measurement hierarchy for financial instruments of the Group.

(8) Fair value measurement hierarchy

A. Fair value measurement hierarchy

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

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

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

Level 3 – Unobservable inputs for the asset or liability

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

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

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

As at 31 December 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	—	—	\$111,835	\$111,835

As at 31 December 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income				
Equity instrument measured at fair value through other comprehensive income	—	—	\$112,069	\$112,069

C. Reconciliation for fair value measurements in Level 3 is as follows:

	<u>Financial assets at fair value through other comprehensive income</u>
As at 1 Jan 2019	\$112,069
Unrealized (losses) from equity instruments investments measured at fair value through other comprehensive income	1,071
Exchange differences	(1,305)
As at 31 Dec 2019	<u>\$111,835</u>
	<u>Financial assets at fair value through other comprehensive income</u>
As at 1 Jan 2018	\$118,619
Unrealized (losses) from equity instruments investments measured at fair value through other comprehensive income	(8,544)
Exchange differences	1,994
As at 31 Dec 2018	<u>\$112,069</u>

D. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed:

The fair value of long-term loans is determined using discounted cash flow model, based on the Company's current incremental borrowing rates of similar loans.

	Level 1	Level 2	Level 3	Carrying amount
As at 31 December 2019				
Long-term borrowings (including current portion with maturity less than 1 year)	—	\$5,910,833	—	\$5,910,833
As at 31 December 2018				
Long-term borrowings (including current portion with maturity less than 1 year)	—	\$5,170,173	—	\$5,170,173

(9) Significant assets and liabilities denominated in foreign currencies

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

31 December 2019			
	Foreign currencies (in thousands)	Foreign exchange rate	NT\$ (in thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$381,669	29.9800	\$11,442,424
RMB	\$1,294,253	4.3050	\$5,571,758
<u>Financial liabilities</u>			
Monetary items:			
USD	\$286,927	29.9800	\$8,602,062
RMB	\$1,778,946	4.3050	\$7,658,363
31 December 2018			
	Foreign currencies (in thousands)	Foreign exchange rate	NT\$ (in thousands)
<u>Financial assets</u>			
Monetary items:			
USD	\$272,533	30.7150	\$8,370,856
RMB	\$1,159,255	4.4720	\$5,184,187
<u>Financial liabilities</u>			
Monetary items:			
USD	\$245,387	30.7150	\$7,537,071
RMB	\$1,277,129	4.4720	\$5,711,320

The Group's functional currency are various, and hence is not able to disclose the information of exchange gains and losses by each significant assets and liabilities denominated in foreign currencies. The foreign exchange gains (losses) were NT\$44,270 thousand and (NT\$2,046) thousand for the years ended December 31, 2019 and 2018, respectively.

(10) Capital management

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

13. Other disclosure

(1) Information at significant transactions and on investees

- A. Financing provided to others for the year ended 31 December 2019: Please refer to Attachment 1.
- B. Endorsement/Guarantee provided to others for the year ended 31 December 2019: Please refer to Attachment 2.
- C. Securities held as of 31 December 2019: Please refer to Attachment 3.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lowers of NT\$300 million or 20% of the capital stock for the year ended 31 December 2019: None.
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock for the year ended 31 December 2019: Please refer to Attachment 4.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock for the year ended 31 December 2019: None.
- G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20% of the capital stock for the year ended 31 December 2019: Please refer to Attachment 5.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of capital stock as of 31 December 2019: Please refer to Attachment 6.
- I. Direct or indirect significant influence or control over the investees for the year ended 31 December 2019 (excluding investments in China): Please refer to Attachment 7.
- J. Financial instruments and derivative transactions: None
- K. Others: Significant inter-company transactions during the reporting periods: Please refer to Attachment 9 and Attachment 9-1.

(2) Information on investments in mainland China

- A. Information on investments in mainland China : Please refer to Attachment 8.
- B. Significant transactions with the investee companies in China directly or indirectly through the third area and the relevant prices, payment terms and unrealized gains and losses:
 - (a)Purchase, ending balance of related payables and their weightings: Please refer to Attachment 5.

- (b) Sales, the ending balance of related receivables and their weightings: Please refer to Attachment 5.
- (c) Ending balance of endorsements/guarantees or collateral provided and the purposes: Please refer to Attachment 2.
- (d) Transactions that have significant impact on the profit or loss of current period or the financial position: None.

14. Segment information

For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

(1) General management segment:

The general management segment is responsible for the Group's operation planning and owns manufacturing, R&D and sales functions.

(2) Overseas segment:

The overseas segment owns manufacturing and sales functions.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profit or loss and is measured based on accounting policies consistent with those in the consolidated financial statements.

However, finance costs, financial benefits and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segment are on an arm's length basis in a manner similar to transactions with third parties.

Segment income (loss)

For the year ended 31 December 2019

	Overseas	General management	Adjustment and elimination	Total
Revenue				
External customer	\$11,427,090	\$25,107,355	—	\$36,534,445
Inter-segment (Note)	30,444,259	32,061,651	(\$62,505,910)	—
Total revenue	\$41,871,349	\$57,169,006	(\$62,505,910)	\$36,534,445
Segment profit	\$1,076,838	\$408,153	\$8,838	\$1,493,829

(Note): Inter-segment revenues were eliminated on consolidation.

For the year ended 31 December 2018

	Overseas	General management	Adjustment and elimination	Total
Revenue				
External customer	\$9,282,440	\$19,784,151	—	\$29,066,591
Inter-segment (Note)	23,178,286	25,925,469	(\$49,103,755)	—
Total revenue	\$32,460,726	\$45,709,620	(\$49,103,755)	\$29,066,591
Segment profit	\$364,303	\$657,341	\$9,718	\$1,031,362

(Note): Inter-segment revenues were eliminated on consolidation

As of 31 December 2019 and 2018, the assets of reportable segment information were as follows:

	Overseas	General management	Adjustment and elimination	Total
31 December 2019 Assets	\$31,737,437	\$21,888,963	(\$18,067,673)	\$35,558,727
31 December 2018 Assets	\$27,733,873	\$15,949,843	(\$13,287,452)	\$30,396,264

Geographic information

A. External customer revenue :

Area	2019	2018
Asia	\$32,153,672	\$26,338,213
America	1,852,861	1,137,627
Europe	2,447,973	1,532,499
Others	79,939	58,252
Total	\$36,534,445	\$29,066,591

Revenue is categorized based on the country in which the customer is located.

B. Non-current assets :

Area	2019	2018
Asia	\$8,647,224	\$8,018,203
America	5,783	482
Europe	5	—
Others	154,637	180,383
Total	\$8,807,649	\$8,199,068

Major customers

Individual customers accounting for at least 10% of net sales for the years ended December 31, 2019 and 2018 were as follows:

Customer	2019	2018
Customer A	31.38%	29.81%
Customer B	11.03%	7.89%

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

FINANCING PROVIDED TO OTHERS

TABLE 1

No (Note 1)	Financing Company	Counter-party	Financial Statement Account (Note 2)	Related Party	Maximum Balance for the Period (Note 3)	Ending Balance (Note 9)	Amount Actually Drawn	Interest Rate	Nature of Financing (Note 4)	Transaction Amounts (Note 5)	Reason for Financing (Note 6)	Allowance for Doubtful Accounts	Collateral		Financing Limits for Each Borrower	Financing Company's Total Financing Amount Limits	Note
													Item	Value			
0	ASIA VITAL COMPONENTS CO., LTD	D-MAX TECHNOLOGY CO., LTD.	Other receivables	Yes	\$100,000	—	—	2.50%	2	—	Operating capital	—	—	—	\$3,590,394	\$3,590,394	(Note 7)
1	CHIHUNG INTERNATIONAL LTD.	ASIA VITAL COMPONENTS (SHANGHAI) CO.,LTD.	Other receivables	Yes	\$299,800 (USD10,000 thousand)	—	—	3.50%	2	—	Operating capital	—	—	—	\$1,795,197	\$3,590,394	(Note 8)
2	AVC INTERNATIONAL CO.,LTD.-SAMOA	CHIHUNG INTERNATIONAL LTD.	Other receivables	Yes	\$299,800 (USD10,000 thousand)	—	—	3.00%	2	—	Operating capital	—	—	—	\$1,795,197	\$3,590,394	(Note 8)
3	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	AVC PRECISION, CO., LTD.	Other receivables	Yes	\$365,925 (CNY85,000 thousand)	\$365,925 (CNY85,000 thousand)	—	3.00%	2	—	Operating capital	—	—	—	\$1,795,197	\$3,590,394	(Note 8)
4	WUCHIDA INTERNATIONAL CO.,LTD.	(JIASHAN)D-MAX ELECTRONICS CO.,LTD.	Other receivables	Yes	\$29,980 (USD1,000 thousand)	—	—	3.50%	2	—	Operating capital	—	—	—	\$1,795,197	\$3,590,394	(Note 8)
5	AVC INTERNATIONAL (SAMOA) CO., LTD.	AVC PRECISION, CO., LTD.	Other receivables	Yes	\$149,900 (USD5,000 thousand)	\$149,900 (USD5,000 thousand)	—	3.00%	2	—	Operating capital	—	—	—	\$1,795,197	\$3,590,394	(Note 8)

Note 1 : Companies are coded as follows :

(1) ASIA VITAL COMPONENTS Co., LTD. is coded "0".

(2) The investees are coded from "1" in the order presented in the table above.

Note 2 : Receivables from affiliates and related parties, shareholder transactions, prepayments and temporary payments etc. are required to be disclosed in this field if they are financings provided to others.

Note 3 : The maximum balance of financing provided to others for the year ended December 31, 2019.

Note 4 : Nature of Financing are coded as follows :

(1) Business transaction is coded "1".

(2) Short-term financing is coded "2".

Note 5 : If nature of financing is business transaction, the amount of transaction should be disclosed.

Note 6 : With respect to short-term financing, the reasons of financing and the purpose of use by the counter-party shall be specified, such as loan repayment, equipment acquisition or operating capital.

Note 7 : ASIA VITAL COMPONENTS CO.,LTD : Limit of financing amount for individual counter-party including guarantee amount shall not exceed 40% of the Company's net worth. Limit of total financing amount shall not exceed 40% of the Company's net worth.

Note 8 : For foreign companies of which the Company holds, directly and indirectly, 100% of the voting shares, the financing provided to any single entity shall not exceed 20% of the net worth. Total financing shall not exceed 40% of the net worth.

Note 9 : If public companies, pursuant to Paragraph 1, Article 14 of Regulations Governing Lending of Funds and Making of Endorsements / Guarantees by Public Companies, resolve each individual lending at the board meetings, the amounts resolved (before any drawing) shall be the publicly-announced balance to disclose the risk they assume; provided however,

if any repayment is made subsequently, the outstanding balance after such repayment shall be disclosed to reflect the risk adjusted. If public companies, pursuant to Paragraph 2, Article 14 of the same Regulations, authorize the chairperson by board resolution, within a certain monetary limit and a period not to exceed one year,

to give loans in instalments or to make a revolving credit line available, the amount resolved shall be the publicly-announced balance. Although repayment may be made subsequently, as drawings are likely to happen, the amount of financing resolved by the board shall be recorded as the publicly-announced balance.

Note 10 : All the above transactions were eliminated on consolidation.

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

TABLE 2

No (Note 1)	Endorsement/Guarantee Provider	Guaranteed Party		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party (Note 3&4)	Maximum Balance for the Period (Note 5)	Ending Balance (Note 6)	Amount Actually Drawn (Note 7)	Amount of Endorsement/ Guarantee secured by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3&4)	Endorsement provided by parent company to subsidiaries (Note 8)	Endorsement provided by subsidiaries to parent company (Note 8)	Endorsement provided to subsidiaries in China (Note 8)	Note
		Name	Nature of Relationship (Note 2)											
0	ASIA VITAL COMPONENTS CO.,LTD	AVC INTERNATIONAL CO., LTD.-SAMOA	2	\$8,975,985	\$299,800 (USD10,000 thousand)	\$149,900 (USD5,000 thousand)	—	—	1.67%	\$13,463,977	Y	N	N	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	MERIT TRADING CORPORATION	2	\$8,975,985	\$299,800 (USD10,000 thousand)	\$299,800 (USD10,000 thousand)	—	—	3.34%	\$13,463,977	Y	N	N	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	AVC INTERNATIONAL (SAMOA) CO., LTD.	2	\$8,975,985	\$899,400 (USD30,000 thousand)	\$899,400 (USD30,000 thousand)	—	—	10.02%	\$13,463,977	Y	N	N	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	D-MAX TECHNOLOGY CO., LTD.	2	\$1,795,197	\$90,000	\$40,000	—	—	0.45%	\$13,463,977	Y	N	N	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	MACE TECH CORP.	2	\$8,975,985	\$1,268,154 (USD42,300 thousand)	\$1,088,274 (USD36,300 thousand)	\$179,880 (USD6,000 thousand)	—	12.12%	\$13,463,977	Y	N	N	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	AVC PRECISION, CO., LTD.	2	\$8,975,985	\$814,850 (USD20,000 thousand) (CNY50,000 thousand)	\$515,050 (USD10,000 thousand) (CNY50,000 thousand)	\$299,800 (USD10,000 thousand)	—	5.74%	\$13,463,977	Y	N	Y	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	2	\$8,975,985	\$1,032,390 (USD33,000 thousand) (CNY10,000 thousand)	\$1,032,390 (USD33,000 thousand) (CNY10,000 thousand)	\$389,740 (USD13,000 thousand)	—	11.50%	\$13,463,977	Y	N	Y	(Note 3)
0	ASIA VITAL COMPONENTS CO.,LTD	AVC OPTICS (WUHAN) CORP.	2	\$8,975,985	\$899,400 (USD30,000 thousand)	\$899,400 (USD30,000 thousand)	\$449,700 (USD15,000 thousand)	—	10.02%	\$13,463,977	Y	N	Y	(Note 3)

Note 1 : Companies are coded as follows:

(1) ASIA VITAL COMPONENTS Co., LTD. is coded "0".

(2) The investees are coded from "1" in the order presented in the table above.

Note 2 : The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following types :

(1) A company that has a business relationship with AVC.

(2) A subsidiary in which AVC holds directly over 50% of common equity interest.

(3) An investee in which AVC and its subsidiaries jointly hold over 50% of common equity interest.

(4) A parent company that holds directly over 90% or indirectly over 90% through a subsidiary of the company's common equity interest.

(5) A company that has provided guarantees to AVC, and vice versa, due to contractual requirements.

(6) A company in which AVC jointly invests with other shareholders, and for which AVC has provided endorsement/guarantee in proportion to its shareholding percentage.

(7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3 : ASIA VITAL COMPONENTS CO.,LTD. : The aggregate amount of endorsements/guarantees for any single entity shall not exceed 20% of the Company's net worth, and the aggregate amount of endorsements/guarantees for any single overseas associated company shall not exceed 100% of the Company's equity net worth.

The overall amount of guarantees/endorsements shall not exceed 150% of the Company's equity net worth.

Note 4 : ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD., ASIA VITAL COMPONENTS (CHINA) CO., LTD., ASIA VITAL COMPONENTS (CHENGDU) CO., LTD., ASIA VITAL COMPONENTS (SHANGHAI) CO., LTD., AVC OPTICS (WUHAN) CORP., ASIA VITAL COMPONENTS (DONGGUAN) CO., LTD., AVC PRECISION, CO., LTD. :

The amount of guarantees/endorsements provided to any single entity shall not exceed USD200 million dollars.

Note 5 : Maximum balance of endorsements/guarantees provided to others for current period.

Note 6 : The maximum balance for the period and ending balance represent the amounts approved by the Board Directors.

Note 7 : The company which endorsements/guarantees by AVC should disclosed the amount actually drawn within ending balance.

Note 8 : Public company provided endorsements/guarantees to subsidiary or subsidiary provided endorsements/guarantees to public company or provided endorsements/guarantees which located in CHINA area coded "Y".

(Continued)

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

ENDORSEMENT/GUARANTEE PROVIDED TO OTHERS

No (Note 1)	Endorsement/Guarantee Provider	Guaranteed Party		Limits on Endorsement/Guarantee Amount Provided to Each Guaranteed Party (Note 3&4)	Maximum Balance for the Period (Note 5)	Ending Balance (Note 6)	Amount Actually Drawn (Note 7)	Amount of Endorsement/ Guarantee secured by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowed (Note 3&4)	Endorsement provided by parent company to subsidiaries (Note 8)	Endorsement provided by subsidiaries to parent company (Note 8)	Endorsement provided to subsidiaries in China (Note 8)	Note
		Name	Nature of Relationship (Note 2)											
1	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$215,250 (CNY50,000 thousand)	\$215,250 (CNY50,000 thousand)	—	—	7.58%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
1	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD. ASIA VITAL COMPONENTS (CHINA) CO., LTD. ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD. AVC PRECISION, CO., LTD.	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD. AVC PRECISION, CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$796,424 (CNY185,000 thousand)	\$796,424 (CNY185,000 thousand)	\$678,721 (CNY157,659 thousand)	\$215,250 (CNY50,000 thousand)	9.08%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
1	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD. ASIA VITAL COMPONENTS (CHINA) CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD. ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$645,750 (CNY150,000 thousand)	\$645,750 (CNY150,000 thousand)	\$516,747 (CNY120,034 thousand)	—	9.97%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
1	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD. ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$774,899 (CNY180,000 thousand)	\$774,899 (CNY180,000 thousand)	\$258,771 (CNY60,109 thousand)	—	19.10%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
1	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	AVC OPTICS (WUHAN) CORP.	4	\$5,996,000 (USD200,000 thousand)	\$645,750 (CNY150,000 thousand)	\$645,750 (CNY150,000 thousand)	\$12,538 (CNY2,912 thousand)	—	22.73%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
2	ASIA VITAL COMPONENTS (CHINA) CO., LTD. ASIA VITAL COMPONENTS (CHENGDU) CO., LTD. ASIA VITAL COMPONENTS (SHANGHAI) CO.,LTD.	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$516,600 (CNY120,000 thousand)	—	—	—	—	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
2	ASIA VITAL COMPONENTS (CHINA) CO., LTD. ASIA VITAL COMPONENTS (CHENGDU) CO., LTD. AVC OPTICS (WUHAN) CORP.	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$516,600 (CNY120,000 thousand)	\$516,600 (CNY120,000 thousand)	\$132,919 (CNY30,875 thousand)	—	6.97%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)
2	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	4	\$5,996,000 (USD200,000 thousand)	\$258,300 (CNY60,000 thousand)	\$258,300 (CNY60,000 thousand)	\$131,885 (CNY30,635 thousand)	—	7.10%	\$5,996,000 (USD200,000 thousand)	N	N	Y	(Note 4)

Note 1 : Companies are coded as follows:

- (1) ASIA VITAL COMPONENTS Co., LTD. is coded "0".
- (2) The investees are coded from "1" in the order presented in the table above.

Note 2 : The relationships between endorsement/guarantee providers and guaranteed parties are categorized into the following types :

- (1) A company that has a business relationship with AVC.
- (2) A subsidiary in which AVC holds directly over 50% of common equity interest.
- (3) An investee in which AVC and its subsidiaries jointly hold over 50% of common equity interest.
- (4) A parent company that holds directly over 90% or indirectly over 90% through a subsidiary of the company's common equity interest.
- (5) A company that has provided guarantees to AVC, and vice versa, due to contractual requirements.
- (6) A company in which AVC jointly invests with other shareholders, and for which AVC has provided endorsement/guarantee in proportion to its shareholding percentage.
- (7) Companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3 : ASIA VITAL COMPONENTS CO.,LTD. : The aggregate amount of endorsements/guarantees for any single entity shall not exceed 20% of the Company's net worth, and the aggregate amount of endorsements/guarantees for any single overseas associated company shall not exceed 100% of the Company's equity net worth.

The overall amount of guarantees/endorsements shall not exceed 150% of the Company's equity net worth.

Note 4 : ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD., ASIA VITAL COMPONENTS (CHINA) CO., LTD., ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.,ASIA VITAL COMPONENTS (SHANGHAI) CO., LTD., AVC OPTICS (WUHAN) CORP., ASIA VITAL COMPONENTS (DONGGUAN) CO., LTD.,AVC PRECISION, CO., LTD. :

The amount of guarantees/endorsements provided to any single entity shall not exceed USD200 million dollars.

Note 5 : Maximum balance of endorsements/guarantees provided to others for current period.

Note 6 : The maximum balance for the period and ending balance represent the amounts approved by the Board Directors.

Note 7 : The company which endorsements/guarantees by AVC should disclosed the amount actually drawn within ending balance.

Note 8 : Public company provided endorsements/guarantees to subsidiary or subsidiary provided endorsements/guarantees to public company or provided endorsements/guarantees which located in CHINA area coded "Y".

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES)

TABLE 3

Name of Held Company	Type and name of Marketable Securities	Relationship with the Company	Financial Statement Account	December 31, 2019			
				Shares (In Thousands)	Carrying Amount	Percentage of Ownership	Market Value
ASIA VITAL COMPONENTS CO.,LTD	Not listed (OTC) stocks						
	SENTELC CORPORATION	—	Financial assets measured at fair value through other comprehensive income, noncurrent	509	\$2,423	1.96%	\$2,423
	ASSEM TECHNOLOGY CO., LTD.	—	Financial assets measured at fair value through other comprehensive income, noncurrent	515	\$7,000	1.82%	\$7,000
	RTR-TECH TECHNOLOGY CO., LTD.	—	Financial assets measured at fair value through other comprehensive income, noncurrent	14,000	—	19.42%	—
	APTOS TECHNOLOGY INC.	—	Financial assets measured at fair value through other comprehensive income, noncurrent	1,124	—	1.27%	—
	UBIQCONN TECHNOLOGY, INC.	—	Financial assets measured at fair value through other comprehensive income, noncurrent	2,500	—	6.10%	—
MERIT TRADING CORPORATION	Not listed (OTC) stocks						
	FURUKAWA ELECTRIC (SHENZHEN) CO., LTD.	Other related parties	Financial assets measured at fair value through other comprehensive income, noncurrent	(Note)	\$81,934	9.06%	\$81,934
MACE TECH CORP.	Not listed (OTC) stocks						
	SHENG-SHING CORP.	—	Financial assets measured at fair value through other comprehensive income, noncurrent	703	\$10,116	14.06%	\$10,116
ASIA VITAL COMPONENTS (CHINA) CO., LTD.	Not listed (OTC) stocks						
	SHENZHEN TIMELINK TECHNOLOGY CO., LTD.	—	Financial assets measured at fair value through other comprehensive income, noncurrent	2,273	\$10,362	10.80%	\$10,362

Note : None amount of shares is issued publicly by Limited Company.

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
RELATED PARTY TRANSACTIONS WITH PURCHASE OR SALES AMOUNT OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

TABLE 4

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	Percentage to Total	Collection/ Payment Terms	Unit Price	Collection/ Payment Terms	Ending Balance	Percentage to Total	
ASIA VITAL COMPONENTS CO., LTD	AVC INTERNATIONAL (SAMOA) CO., LTD.	Subsidiary	Purchases	(\$13,802,941)	(58%)	Net 60 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$4,210,057)	(53%)	
ASIA VITAL COMPONENTS CO., LTD	MERIT TRADING CORPORATION	Subsidiary	Purchases	(\$5,330,853)	(23%)	Net 90 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$2,109,133)	(26%)	
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	Subsidiary	Purchases	(\$835,062)	(4%)	Net 90 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$335,819)	(4%)	
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	Subsidiary	Purchases	(\$630,485)	(3%)	Net 75 days from the end of delivery month of when invoice is issued by T/T	N/A	N/A	(\$353,040)	(4%)	
ASIA VITAL COMPONENTS CO., LTD	TONBRIDGE INVESTMENTS LTD.	Subsidiary	Purchases	(\$616,547)	(3%)	Net 90 days from the end of the month of when invoice is issued	N/A	N/A	(\$298,663)	(4%)	
ASIA VITAL COMPONENTS CO., LTD	WUCHIDA INTERNATIONAL CO., LTD.	Subsidiary	Purchases	(\$480,348)	(2%)	Net 120 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$127,275)	(2%)	
ASIA VITAL COMPONENTS CO., LTD	FOSITEK CORP.	Subsidiary	Purchases	(\$402,907)	(2%)	Net 15 days from the end of delivery month of when invoice is issued	N/A	N/A	(\$55,184)	(1%)	
ASIA VITAL COMPONENTS CO., LTD	JADS CORPORATION (HK) LTD.	Subsidiary	Purchases	(\$293,452)	(1%)	Net 150 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$125,495)	(2%)	
ASIA VITAL COMPONENTS CO., LTD	RAYNEY INTERNATIONAL LTD.	Subsidiary	Purchases	(\$272,898)	(1%)	Net 90 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$11,968)	(0%)	
ASIA VITAL COMPONENTS CO., LTD	AVC AMERICA, INC.	Subsidiary	Sales	\$696,604	3%	Net 60 days from the end of the month of when invoice is issued by T/T	N/A	N/A	\$303,956	6%	

(Continued)

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
RELATED PARTY TRANSACTIONS WITH PURCHASE OR SALES AMOUNT OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

TABLE 4-1

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	Percentage to Total	Collection/ Payment Terms	Unit Price	Collection/ Payment Terms	Ending Balance	Percentage to Total	
AVC INTERNATIONAL (SAMOA) CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$13,802,941	94%	Net 60 days from the end of the month of when invoice is issued by T/T	N/A	N/A	\$4,210,057	94%	
MERIT TRADING CORPORATION	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$5,330,853	87%	Net 90 days from the end of the month of when invoice is issued by T/T	N/A	N/A	\$2,109,133	89%	
ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$835,062	61%	Net 90 days from the end of the month of when invoice is issued	N/A	N/A	\$335,819	56%	
ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$630,485	8%	Net 75 days from the end of delivery month of when invoice is issued by T/T	N/A	N/A	\$353,040	12%	
TONBRIDGE INVESTMENTS LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$616,547	88%	Net 90 days from the end of the month of when invoice is issued	N/A	N/A	\$298,663	91%	
WUCHIDA INTERNATIONAL CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$480,348	88%	Net 120 days from the end of the month of when invoice is issued by T/T	N/A	N/A	\$127,275	85%	
FOSITEK CORP.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$402,907	76%	Net 15 days from the end of delivery month of when invoice is issued	N/A	N/A	\$55,184	53%	
JADS CORPORATION (HK) LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$293,452	99%	Net 150 days from the end of the month of when invoice is issued by T/T	N/A	N/A	\$125,495	100%	
RAYNEY INTERNATIONAL LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Sales	\$272,898	86%	Net 90 days from the end of the month of when invoice is issued by T/T	N/A	N/A	\$11,968	78%	
AVC AMERICA, INC.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	Purchases	(\$696,604)	(64%)	Net 60 days from the end of the month of when invoice is issued by T/T	N/A	N/A	(\$303,956)	(81%)	

Note : All the above transactions were eliminated on consolidation.

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
RECEIVABLES FROM RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

TABLE 5

Company Name	Related Party	Nature of Relationships	Ending Balance (Note 3)	Turnover Ratio (times)	Overdue		Amounts Received in Subsequent Periods	Allowance for Doubtful Accounts
					Amount	Action Taken		
AVC INTERNATIONAL (SAMOA) CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$4,210,057	4.61	—	(Note 2)	—	(Note 1)
MERIT TRADING CORPORATION	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$2,109,133	2.28	—	(Note 2)	—	(Note 1)
ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$353,040	2.06	—	(Note 2)	—	(Note 1)
ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$335,819	3.60	—	(Note 2)	—	(Note 1)
TONBRIDGE INVESTMENTS LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$298,663	2.45	—	(Note 2)	—	(Note 1)
WUCHIDA INTERNATIONAL CO., LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$127,275	3.39	—	(Note 2)	—	(Note 1)
JADS CORPORATION (HK) LTD.	ASIA VITAL COMPONENTS CO., LTD	The company's ultimate parent	\$125,495	2.43	—	(Note 2)	—	(Note 1)

Note 1 : The preparation of consolidated statements does not require recording the allowance for doubtful accounts.

Note 2 : The Company balances its accounts regularly and writes off receivables against payables.

Note 3 : All the above transactions were eliminated on consolidation.

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEE COMPANIES (Not including investment in Mainland China)

TABLE 6

Investor Company	Investee Company	Address	Main businesses and products	Initial Investment		Investment as of December 31, 2019			Net income (loss) of investee company	Investment income (loss) recognized	Note
				Ending balance	Beginning balance	Number of shares (thousand)	Percentage of ownership (%)	Carrying amount			
ASIA VITAL COMPONENTS CO., LTD	AVC INTERNATIONAL CO., LTD. – B.V.I.	Vistra Corporate Services Centre, Wickhams Cay II Road Town Tortola VG1110 Virgin Islands, British	Investment holding	\$5,147,294	\$5,147,294	16	100.00%	\$8,033,045	\$404,533	\$257,319	
	CHIHUNG INTERNATIONAL LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Investment holding	\$1,040,647	\$1,040,647	32,770	100.00%	\$3,900,058	\$294,802	\$299,665	
	MERIT TRADING CORPORATION	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Trade	\$29,088	\$29,088	892	100.00%	\$167,327	\$383	\$810	
	RAYNEY INTERNATIONAL LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Trade	\$78,950	\$78,950	2,400	100.00%	\$125,288	\$49	\$49	
	AVC AMERICA, INC.	48501 Warm Springs Blvd., Suite #109 Fremont, CA 94539-7750	Trade	\$91,903	\$91,903	41	100.00%	\$95,053	\$3,976	\$3,976	
	AVC INTERNATIONAL (SAMOA) CO., LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Trade	\$10,157	\$10,157	300	100.00%	\$65,205	\$759	\$753	
	JADS CORPORATION (HK) LTD.	FLAT/RM 6 16/F WORKINGBOND COMMERCIAL CENTRE 162-164 PRINCE EDWARD RD WEST MONGKOK KL	Trade	\$327	\$327	10	100.00%	\$28,027	\$553	\$1,566	
	ZIMAG TECHNOLOGY CO., INC.	No.2-2, Aly. 98, Ln. 800, Zhongshan S. Rd., Yangmei Dist., Taoyuan City 326, Taiwan (R.O.C.)	Manufacture, process and sales of molds and aluminum products	\$45,000	\$45,000	2,700	9.53%	\$38,857	\$35,055	\$3,273	
	AVC INTERNATIONAL CO., LTD. – SAMOA	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Trade	\$32,120	\$32,120	1,000	100.00%	\$319,168	(\$44,412)	(\$44,412)	
	FOSITEK CORP.	8F.-4, No.24, Wuquan 2nd Rd., Xinzhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	Sales and manufacture of electronic parts, computers and related products	\$114,215	\$78,394	8,670	29.71%	\$145,916	\$21,713	\$6,857	
	HUNG YE INVESTMENT CO., LTD.	7F.-3, No.24, Wuquan 2nd Rd., Xinzhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	Investment holding	\$60,000	\$60,000	6,000	100.00%	\$14,359	\$3	\$3	
	D-MAX TECHNOLOGY CO., LTD.	7F.-3, No.24, Wuquan 2nd Rd., Xinzhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	Sales and manufacture of electronic parts and related products	\$201,035	\$201,035	28,500	100.00%	\$300,008	\$73,890	\$73,840	
	AVC Europe Technology GmbH	Bismarckstraße 100 (c/o Regus Mönchengladbach City Center), 41061 Mönchengladbach	Trade	\$9,050	—	250	100.00%	\$8,361	\$68	(\$58)	

(Continued)

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
NAMES, LOCATIONS AND RELATED INFORMATION OF INVESTEE COMPANIES (Not including investment in Mainland China)

TABLE 6-1

Investor Company	Investee Company	Address	Main businesses and products	Initial Investment		Investment as of December 31, 2019			Net income (loss) of investee company	Investment income (loss) recognized	Note
				Ending balance	Beginning balance	Number of shares (thousand)	Percentage of ownership (%)	Carrying amount			
AVC INTERNATIONAL CO., LTD. – B.V.I.	MACE TECH CORP.	Vistra Corporate Services Centre, Wickhams Cay II Road Town Tortola VG1110 Virgin Islands,British	Trade	\$319,776	\$319,776	11,068	100.00%	\$1,598,077	\$264,965	\$264,965	
	AVC OPTICS CORP.	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.	Investment holding	\$3,128,775	\$3,128,775	100,000	100.00%	\$2,558,815	(\$247,868)	(\$247,868)	
CHIHUNG INTERNATIONAL LTD.	TONBRIDGE INVESTMENTS LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Investment holding	\$101,772	\$101,772	3,000	100.00%	\$250,845	(\$91,878)	(\$91,878)	
HUNG YE INVESTMENT CO., LTD.	KEY APPLICATION TECHNOLOGY CO., LTD.	7F., No.147, Xianzheng 9th Rd., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	Sales and manufacture of electronic products	\$15,300	\$15,300	1,115	16.31%	\$8,955	\$2,396	\$11	
D-MAX TECHNOLOGY CO., LTD.	WUCHIDA INTERNATIONAL CO., LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Investment holding	\$132,004	\$132,004	4,000	100.00%	\$179,978	\$77,768	\$77,768	
WUCHIDA INTERNATIONAL CO., LTD.	D-MAX INTERNATIONAL CO., LIMITED	FLAT/RM6 16F WORKINGBOND COMMERCIAL CENTRE 162-164 PRINCE EDWARD ROAD W MONG KOK KL	Investment holding	\$132,004	\$132,004	4,000	100.00%	\$149,933	\$53,914	\$55,573	
FOSITEK CORP.	FOREVER RICH INVESTMENTS CO.,LTD.	8F.-4, No.24, Wuquan 2nd Rd., Xinzhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	Investment holding	\$126,260	\$126,260	12,626	100.00%	\$96,450	\$2,718	\$3,061	
	MARKETHILL INVESTMENTS LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Investment holding	\$102,766	\$102,766	3,200	76.19%	\$200,090	\$15,183	\$12,665	
FOREVER RICH INVESTMENTS CO.,LTD.	MARKETHILL INVESTMENTS LTD.	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	Investment holding	\$29,914	\$29,914	1,000	23.81%	\$64,888	\$15,183	\$3,615	

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
INFORMATION ON INVESTMENT IN MAINLAND CHINA

TABLE 7

Investor Company	Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Percentage of Ownership (Direct or Indirect Investment)	Profits/ Losses of the Investee Company	Share of Profits/Losses	Carrying Amount as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
						Outflow	Inflow						
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	Sales and manufacture of computers related products and computer cooling fans	\$642,719	(2) AVC INTERNATIONAL CO., LTD.—B.V.I.	\$642,719	—	—	\$642,719	100.00%	\$271,254	\$271,254	\$2,840,992	—
ASIA VITAL COMPONENTS CO., LTD	FURUKAWA AVC ELECTRONICS (SUZHOU) CO., LTD.	Sales and manufacture of reflow machines, solder paste printers and notebook thermal modules	\$267,247	(2) RAYNEY INTERNATIONAL LTD.	\$54,176	—	—	\$54,176	30.00%	\$22	\$7	\$95,022	—
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (SHANGHAI) CO., LTD.	Sales and manufacture of notebook thermal modules	\$200,073	(2) CHIHUNG INTERNATIONAL LTD.	\$101,772	—	—	\$101,772	100.00%	(\$91,906)	(\$91,906)	\$249,011	—
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (DONGGUAN) CO., LTD.	Sales and manufacture of computers, electronic products and related parts	\$514,105	(2) AVC INTERNATIONAL CO., LTD.—B.V.I.	\$319,776	—	—	\$319,776	100.00%	\$254,463	\$255,035	\$1,185,796	—
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	Sales and manufacture of computers related products and computer cooling fans	\$879,291	(2) CHIHUNG INTERNATIONAL LTD.	\$879,291	—	—	\$879,291	100.00%	\$386,160	\$386,160	\$3,636,316	—
ASIA VITAL COMPONENTS CO., LTD	FURUKAWA ELECTRIC (SHENZHEN) CO., LTD.	Sales and manufacture of automobile parts	\$321,060	(2) MERIT TRADING CORPORATION	\$29,088	—	—	\$29,088	9.06%	\$71,928	—	\$81,934	—
ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	Sales and manufacture of computers, related parts and accessories	\$1,055,897	(2) AVC INTERNATIONAL CO., LTD.—B.V.I.	\$1,055,897	—	—	\$1,055,897	100.00%	\$116,551	\$116,551	\$1,215,660	—
D-MAX TECHNOLOGY CO., LTD.	(JIASHAN) D-MAX ELECTRONICS CO., LTD.	Sales and manufacture of electronic and photographic equipment	\$132,004	(2) WUCHIDA INTERNATIONAL CO., LTD.	\$132,004	—	—	\$132,004	100.00%	\$53,914	\$53,914	\$151,035	—
ASIA VITAL COMPONENTS CO., LTD	AVC OPTICS (WUHAN) CORP.	Sales and manufacture of computers related products and computer cooling fans	\$3,128,775	(2) AVC INTERNATIONAL CO., LTD.—B.V.I.	\$3,128,775	—	—	\$3,128,775	100.00%	(\$247,868)	(\$247,868)	\$2,558,803	—
FOSITEK CORP.	FIRST DOME CORP TELECOM., LTD.	Sales and manufacture of rails, shafts and metal stamping tooling	\$29,914	(2) MARKETHILL INVESTMENTS LTD.	\$29,914	—	—	\$29,914	100.00%	\$16,076	\$16,076	\$217,462	—
FOSITEK CORP.	DONG GUAN DOWA ELECTRONICS CO., LTD.	Sales and manufacture of membrane switches	\$97,879	(2) MARKETHILL INVESTMENTS LTD.	\$97,879	—	—	\$97,879	100.00%	(\$148)	(\$148)	\$40,564	—

Accumulated Outflow of Investment from Taiwan to Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$6,471,291 (US\$209,943,010)	\$6,794,759 (US\$226,643,092)	(Note 3)

Note 1 : The methods for investment in Mainland China are categorized into the following three types. Please specify the type.

- (1) Direct investment in Mainland China.
- (2) Indirectly investment in Mainland China through companies registered in the third area (Please specify the name of the company in third region).
- (3) Others.

Note 2 : The table is expressed in thousands of New Taiwan Dollars.

Note 3 : The Company has obtained the certificate of being qualified for operating headquarters, issued by the Industrial Development Bureau, MOEA, the ceiling amount of the investment in Mainland China is not applicable to the Company.

Note 4 : All the above transactions were eliminated on consolidation.

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

TABLE 8

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
0	ASIA VITAL COMPONENTS CO., LTD	AVC INTERNATIONAL (SAMOA) CO., LTD.	1	Purchases	\$13,802,941	General trading terms	38%
0	ASIA VITAL COMPONENTS CO., LTD	AVC INTERNATIONAL (SAMOA) CO., LTD.	1	Accounts payable	\$4,210,057	General payment terms	12%
0	ASIA VITAL COMPONENTS CO., LTD	AVC AMERICA, INC.	1	Sales	\$696,604	General trading terms	2%
0	ASIA VITAL COMPONENTS CO., LTD	AVC AMERICA, INC.	1	Accounts receivable	\$303,956	General collection period	1%
0	ASIA VITAL COMPONENTS CO., LTD	JADS CORPORATION (HK) LTD.	1	Purchases	\$293,452	General trading terms	1%
0	ASIA VITAL COMPONENTS CO., LTD	JADS CORPORATION (HK) LTD.	1	Accounts payable	\$125,495	General payment terms	0%
0	ASIA VITAL COMPONENTS CO., LTD	MERIT TRADING CORPORATION	1	Purchases	\$5,330,853	General trading terms	15%
0	ASIA VITAL COMPONENTS CO., LTD	MERIT TRADING CORPORATION	1	Accounts payable	\$2,109,133	General payment terms	6%
0	ASIA VITAL COMPONENTS CO., LTD	RAYNEY INTERNATIONAL LTD.	1	Purchases	\$272,898	General trading terms	1%
0	ASIA VITAL COMPONENTS CO., LTD	TONBRIDGE INVESTMENTS LTD.	1	Purchases	\$616,547	General trading terms	2%
0	ASIA VITAL COMPONENTS CO., LTD	TONBRIDGE INVESTMENTS LTD.	1	Accounts payable	\$298,663	General payment terms	1%
0	ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	1	Purchases	\$835,062	General trading terms	2%
0	ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	1	Accounts payable	\$335,819	General payment terms	1%
0	ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	1	Purchases	\$630,485	General trading terms	2%
0	ASIA VITAL COMPONENTS CO., LTD	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	1	Accounts payable	\$353,040	General payment terms	1%
0	ASIA VITAL COMPONENTS CO., LTD	WUCHIDA INTERNATIONAL CO.,LTD.	1	Purchases	\$480,348	General trading terms	1%
0	ASIA VITAL COMPONENTS CO., LTD	WUCHIDA INTERNATIONAL CO.,LTD.	1	Accounts payable	\$127,275	General payment terms	0%
0	ASIA VITAL COMPONENTS CO., LTD	FOSITEK CORP.	1	Purchases	\$402,907	General trading terms	1%

ASIA VITAL COMPONENTS CO., LTD AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Expressed in thousands of New Taiwan Dollars unless Otherwise Specified)
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

TABLE 8-1

No. (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms	Percentage of Consolidated Net Revenue or Total Assets (Note 3)
1	AVC INTERNATIONAL (SAMOA) CO., LTD.	MACE TECH CORP.	3	Purchases	\$9,471,976	General trading terms	26%
1	AVC INTERNATIONAL (SAMOA) CO., LTD.	MACE TECH CORP.	3	Other receivable	\$152,859	General collection period	0%
1	AVC INTERNATIONAL (SAMOA) CO., LTD.	AVC OPTICS (WUHAN) CORP.	3	Sales	\$140,617	General trading terms	0%
1	AVC INTERNATIONAL (SAMOA) CO., LTD.	AVC OPTICS (WUHAN) CORP.	3	Accounts receivable	\$205,572	General collection period	1%
1	AVC INTERNATIONAL (SAMOA) CO., LTD.	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	3	Purchases	\$5,243,267	General trading terms	14%
1	AVC INTERNATIONAL (SAMOA) CO., LTD.	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	3	Accounts payable	\$4,638,818	General payment terms	13%
2	ASIA VITAL COMPONENTS (SHANGHAI) CO.,LTD.	RAYNEY INTERNATIONAL LTD.	3	Sales	\$315,754	General trading terms	1%
3	AVC AMERICA, INC.	MERIT TRADING CORPORATION	3	Purchases	\$318,109	General trading terms	1%
4	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	3	Sales	\$304,004	General trading terms	1%
4	ASIA VITAL COMPONENTS (CHENGDU) CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	3	Accounts receivable	\$156,083	General collection period	0%
5	AVC PRECISION, CO., LTD.	AVC OPTICS (WUHAN) CORP.	3	Sales	\$353,767	General trading terms	1%
5	AVC PRECISION, CO., LTD.	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	3	Sales	\$1,627,152	General trading terms	4%
5	AVC PRECISION, CO., LTD.	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	3	Accounts receivable	\$698,744	General collection period	2%
5	AVC PRECISION, CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	3	Sales	\$902,603	General trading terms	2%
5	AVC PRECISION, CO., LTD.	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	3	Accounts receivable	\$168,212	General collection period	0%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	AVC OPTICS (WUHAN) CORP.	3	Sales	\$264,699	General trading terms	1%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	AVC OPTICS (WUHAN) CORP.	3	Accounts receivable	\$194,802	General collection period	1%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	AVC OPTICS (WUHAN) CORP.	3	Purchases	\$253,242	General trading terms	1%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	JADS CORPORATION (HK) LTD.	3	Sales	\$277,940	General trading terms	1%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	JADS CORPORATION (HK) LTD.	3	Accounts receivable	\$127,586	General collection period	0%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	FIRST DOME CORP TELECOM.,LTD.	3	Purchases	\$379,171	General trading terms	1%
6	ASIA VITAL COMPONENTS (CHINA) CO., LTD.	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	3	Other payable	\$111,655	General payment terms	0%
7	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	MERIT TRADING CORPORATION	3	Sales	\$6,023,892	General trading terms	16%
7	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	MERIT TRADING CORPORATION	3	Accounts receivable	\$2,316,243	General collection period	7%
7	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	AVC INTERNATIONAL CO., LTD.- SAMOA	3	Sales	\$984,738	General trading terms	3%
7	ASIA VITAL COMPONENTS (SHEN ZHEN) CO., LTD.	AVC INTERNATIONAL CO., LTD.- SAMOA	3	Accounts receivable	\$259,134	General collection period	1%
8	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	MACE TECH CORP.	3	Sales	\$9,469,515	General trading terms	26%
8	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	MACE TECH CORP.	3	Other payable	\$169,038	General payment terms	0%
8	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	MERIT TRADING CORPORATION	3	Purchases	\$440,869	General trading terms	1%
8	ASIA VITAL COMPONENTS (DONGGUAN) CO.,LTD.	MERIT TRADING CORPORATION	3	Accounts payable	\$191,816	General payment terms	1%
9	AVC OPTICS (WUHAN) CORP.	TONBRIDGE INVESTMENTS LTD.	3	Sales	\$694,283	General trading terms	2%
9	AVC OPTICS (WUHAN) CORP.	TONBRIDGE INVESTMENTS LTD.	3	Accounts receivable	\$323,568	General collection period	1%

Note 1 : The parent company and its subsidiaries are coded as follows:

No.1. The parent company is coded "0".

No.2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2 : Transactions are categorized as follows:

No.1. Transactions from parent company to a subsidiary.

No.2. Transactions from subsidiary to the parent company.

No.3. Transactions between subsidiaries.

Note 3 : Regarding the percentage of transaction amount to consolidated net revenue or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet items; and based on interim accumulated amount to consolidated net revenue for income statement items.