AXIOMTEK CO., LTD.

Parent Company Only Financial Statements for the Years ended December, 2019 and 2018 and Independent Auditors' Report

(Stock Code:3088)

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<u>*Notice to Readers*</u>

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

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

2019 Independent Auditors' Report

(Parent Company Only Financial Statements)

To the Board of Directors and Shareholders of
AXIOMTEK CO., LTD.

Opinion

We have audited the accompanying parent company only balance sheets of AXIOMTEK CO., LTD. (hereinafter referred to as "Axiomtek" or "the Company") as at December 31, 2019 and 2018, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to parent company only financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits In order to comply with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Individual Financial Statements section of our report. We are independent of the Company In order to comply with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities In order to comply with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matters for the parent company only financial statements for the year ended December 31, 2019 are stated as follows:

Cut off of Operating Revenue

Description

Please refer to Note 4(33) for accounting policy on revenue recognition and Note 6(21) for details of operating revenue.

The Company's operating revenue mainly comes from the manufacture and sale of finished products, and is mainly for export. The operating revenue for export is based on the transaction conditions with customers as the basis for revenue recognition. Different customers have different transaction conditions and revenue recognition procedures. Involving manual judgment by management, for sales transactions before and after the balance sheet date, it is necessary to confirm whether the significant risks and rewards related to the ownership of the goods have been transferred to the customer. Therefore, there is a risk of improper timing of revenue recognition. We considered the cut off of operating revenue as a key audit matter.

How our audit addressed the matter

We have performed primary audit procedures for the above matter as follows:

1. Understood and assessed the effectiveness of the internal control of Axiomtek's operating revenue, and perform the test of the effectiveness of internal controls over shipping and billing.
2. For the details of the export income transaction details for a specific period before and after the balance sheet date, confirm its completeness and perform a cut-off test by random inspection, including confirmation of transaction conditions, verification of relevant supporting documents, and confirmation that sales revenue has been recorded in an appropriate period.

Allowance for Inventory Valuation Losses

Description

Please refer to Note 4(12) for accounting policies on inventory valuation, Note 5(2) for uncertainty of accounting estimates and assumptions in relation to inventory valuation losses and Note 6(4) for details of inventories. As at December 31, 2019, the Company's inventories and allowance for inventory valuation losses amounted to TWD 485,213 thousand and TWD 40,850 thousand, respectively.

The Company is primarily engaged in the research and development, manufacturing and sales of industrial computer products. Due to rapid technological innovation and fluctuations in market prices, the Company recognizes inventories at the lower of cost and net realizable value, and the net realizable value is estimated based on historical experience. An allowance for inventory valuation losses is provided for those inventories aged over a certain period of time and individually identified as obsolete or damaged.

As the amounts of inventories are material, the types of inventories vary, and the estimation of net realizable value for individually obsolete or damaged inventories is subject to management's judgment, we considered the allowance for inventory valuation losses as a key audit matter.

How our audit address the matter

We have performed primary audit procedures for the above matter as follows:

1. Ensured consistent application of Company's accounting policies in relation to allowance for inventory valuation losses and assessed the reasonableness of these policies.
2. Evaluated the reasonableness of inventories individually identified as obsolete or damaged with supporting documents, validated the appropriateness of system logic of inventory aging report utilized by management to ensure proper classification of inventories aged over a certain period of time and reperformed the calculation.
3. Discussed with management the net realizable value of inventories aged over a certain period of time and individually identified as obsolete or damaged, validated respective supporting documents, and agreed to information obtained from physical inventory.

Other Matter- Audit by the other independent accountants

We did not audit the financial statements of certain investments accounted for under the equity method. These investments accounted for under equity method amounted to NT$209,511 thousand of total assets as of December 31, 2019, and the share of profit (loss) of associates and joint ventures accounted for using equity method and share of other comprehensive income of subsidiaries associates and joint ventures accounted for using equity method was NT$15,668 thousand of total comprehensive income for the years then ended, respectively. Those financial statements and the information disclosed in Note 13 were audited by other independent accountants, and our opinion expressed herein is based solely on the audit reports of the other independent accountants.

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

Management is responsible for the preparation and fair presentation of the parent company only financial statements In order to comply with the "Regulations Governing the Preparations of Financial Reports by Securities Issuers", and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Parent Company Only Financial

Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 order to comply with ROC GAAS 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 parent company only financial statements.

As part of an audit In order to comply with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only 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 parent company only financial statements, including the disclosures, and whether the Parent Company Only 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 parent company only financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period 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.

Feng, Ming-Chuan Hsu, Shien-Chong

for and on behalf of PricewaterhouseCoopers, Taiwan February 26, 2020

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in Thousands of New Taiwan Dollars)

	Assets	Notes	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 652,040	17	$ 734,817	19
1150	Notes receivable	6(3) and 12(2)	6,681	-	10,508	-
1170	Accounts receivable	6(3) and 12(2)	191,031	5	103,872	3
1180	Accounts receivable – related parties	6(3),7 and 12(2)	342,402	9	436,780	11
1200	Other receivables		15,013	1	20,631	1
1210	Other receivables – related parties	7	47,434	1	85,486	2
130X	Inventories	6(4)	444,363	12	510,656	13
1410	Prepayments		9,069	-	15,258	-
1470	Other current assets	6(1)	596	-	471	-
11XX	**Total current assets**		1,708,629	45	1,918,479	49
	Non-current assets					
1550	Investments accounted for under equity method	6(5)	846,829	22	722,334	18
1600	Property, plant and equipment	6(6) and 8	1,052,023	28	1,069,695	27
1755	Use rights assets	6(7)	47,297	1	-	-
1760	Investment property	6(9)	86,241	2	139,820	4
1780	Intangible assets	6(26)	17,912	1	22,343	1
1840	Deferred income tax assets	6(26)	47,949	1	34,777	1
1920	Refundable deposits		4,298	-	3,785	-
15XX	**Total non-current assets**		2,102,549	55	1,992,754	51
1XXX	**Total Assets**		$ 3,811,178	100	$ 3,911,233	100

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AXIOMTEK CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in Thousands of New Taiwan Dollars)

	Liabilities and Equity	Notes	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current liabilities					
2100	Short-term borrowings	6(11)	$ 102,000	3	$ 53,000	1
2120	Financial liabilities at fair value through profit or los - current	6(13) and 12(3)	-	-	2,760	-
2130	Contract liabilities - current	6(20)	17,597	1	21,397	1
2150	Notes payables		675	-	675	-
2170	Accounts payable		282,255	7	536,942	14
2180	Accounts payable – related parties	7	13,614	-	20,681	1
2200	Other payables	6(12)	233,401	6	256,230	7
2230	Current income tax liabilities	6(26)	47,586	1	127,052	3
2280	Lease liabilities-current portion		16,249	1	-	-
2310	Advance receipts		471	-	2,035	-
2320	Current portion of long-term borrowings	6(14)	-	-	397,757	10
2399	Other current liabilities		1,678	-	1,520	-
21XX	**Total current liabilities**		715,526	19	1,420,049	37
	Non-current liabilities					
2530	Bonds payable	6(14)	319,618	8	-	-
2570	Deferred income tax liabilities	6(26)	101,350	3	85,548	2
2580	Lease liabilities-non current		31,573	1	-	-
2640	Accrued pension liabilities	6(15)	45,109	1	41,745	1
2645	Guarantee deposit received		603	-	902	-
25XX	**Total non-current liabilities**		498,253	13	128,195	3
2XXX	**Total liabilities**		1,213,779	32	1,548,244	40
	Equity attributable to shareholders of the parent					
	Share capital					
3110	Ordinary shares	6(17)	803,954	21	796,206	20
3140	Advance receipts for share capital	6(17)	60,957	2	1,039	-
	Capital surplus	6(18)				
3200	Capital surplus		245,919	7	214,960	6
	Retained earnings	6(19)				
3310	Legal reserve		500,481	13	459,789	12
3320	Special reserve		4,231	-	12,914	-
3350	Unappropriated retained earnings		1,008,490	26	882,311	22
	Other equity					
3400	Other equity		(26,633)	(1)	(4,230)	-
3XXX	**Total equity**		2,597,399	68	2,362,989	60
	Significant commitment and contingent item	9				
3X2X	**Total Liabilities and Equity**		$ 3,811,178	100	$ 3,911,233	100

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

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

			Year ended December 31			
			2019		2018	
	Items	Notes	Amount	%	Amount	%
4000	**Operating revenue**	6(20) and 7	$ 3,407,144	100	$ 3,629,164	100
5000	**Operating costs**	6(4), (24) and (25)	(2,330,229)	(68)	(2,551,498)	(70)
5900	**Gross profit**		1,076,915	32	1,077,666	30
5910	Unrealized gain from sale	6(5)	(86,299)	(2)	(73,004)	(2)
5920	Realized gain from sale		73,004	2	53,428	1
5950	**Net gross profit**		1,063,620	32	1,058,090	29
	Operating expenses	6(24) and (25)				
6100	Selling expenses		(121,977)	(4)	(112,955)	(3)
6200	General and administrative expenses		(101,934)	(3)	(101,341)	(3)
6300	Research and development expenses		(451,471)	(13)	(415,049)	(11)
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	12(2)	(120)	-	772	-
6000	**Total operating expenses**		(675,502)	(20)	(628,573)	(17)
6900	**Operating profit**		388,118	12	429,517	12
	Non-operating income and expenses					
7010	Other income	6(21) and 7	21,775	1	25,711	-
7020	Other gains and losses	6(22)	83,794	2	33,197	1
7050	Finance costs	6(23)	(7,550)	-	(7,236)	-
7070	Share of profit of associates and joint ventures accounted for under equity method	6(5)	75,975	2	83,336	2
7000	**Total non-operating income and expenses**		173,994	5	135,008	3
7900	**Profit before income tax**		562,112	17	564,525	15
7950	Income tax expenses	6(26)	(101,657)	(3)	(157,601)	(4)
8200	**Net Income**		$ 460,455	14	$ 406,924	11
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Remeasurements of defined benefit plan	6(15)	($ 4,354)	-	($ 5,142)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value		-	-	707	-
8349	Income tax relating to components of other comprehensive income	6(26)	871	-	1,490	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		(28,003)	(1)	10,271	-
8399	Income tax relating to the components of other comprehensive income	6(26)	5,600	-	(1,587)	-
8300	**Other comprehensive income (loss) for the year**		($ 25,886)	(1)	$ 5,739	-
8500	**Total Comprehensive Income**		$ 434,569	13	$ 412, 663	11
9750	**Basic earnings per share**	6(27)	$	5.76	$	5.12
9850	**Diluted earnings per share**	6(27)	$	4.18	$	4.61

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

AXIOMTEK CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in Thousands of New Taiwan Dollars)

		Share capital			Retained earnings			Other equity		
	Notes	Ordinary share	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total equity
Year 2018										
Balance at January 1, 2018		$ 793,130	$ 1,379	$ 198,563	$ 367,165	$ -	$ 1,022,874	($ 12,914)	$ -	$ 2,370,197
Effect of retrospective application and restatement		-	-	-	-	-	900	-	(900)	-
Balance at January 1, after adjustments		793,130	1,379	198,563	367,165	-	1,023,774	(12,914)	(900)	2,370,197
Profit for the year		-	-	-	-	-	406,924	-	-	406,924
Other comprehensive income (loss) for the year		-	-	-	-	-	(3,652)	8,684	707	5,739
Total comprehensive income		-	-	-	-	-	403,272	8,684	707	412,663
Appropriations of 2017 earnings										
Legal reserve	6(19)	-	-	-	92,624	-	(92,624)	-	-	-
Special reserve	6(19)	-	-	-	-	12,914	(12,914)	-	-	-
Cash dividends	6(19)	-	-	-	-	-	(439,004)	-	-	(439,004)
Share-based payments		2,730	(340)	3,523	-	-	-	-	-	5,913
Compensation cost of share-based payments	6(16)	-	-	11,513	-	-	-	-	-	11,513
Conversion of convertible bonds		346	-	1,361	-	-	-	-	-	1,707
Disposal of financial assets at fair value through other comprehensive income	6(2)	-	-	-	-	-	(193)	-	193	-
Balance at December 31, 2018		$ 796,206	$ 1,039	$ 214,960	$ 459,789	$ 12,914	$ 882,311	($ 4,230)	$ -	$ 2,362,989
Year 2019										
Balance at January 1, 2019		$ 796,206	$ 1,039	$ 214,960	$ 459,789	$ 12,914	$ 882,311	($ 4,230)	$ -	$ 2,362,989
Profit for the year		-	-	-	-	-	460,455	-	-	460,455
Other comprehensive income (loss) for the year		-	-	-	-	-	(3,483)	(22,403)	-	(25,886)
Total comprehensive income		-	-	-	-	-	456,972	(22,403)	-	434,569
Appropriations of 2018 earnings										
Legal reserve	6(19)	-	-	-	40,692	-	(40,692)	-	-	-
Reversal of special reserve		-	-	-	-	(8,683)	8,683	-	-	-
Cash dividends	6(19)	-	-	-	-	-	(298,784)	-	-	(298,784)
Share-based payments		1,760	(128)	1,990	-	-	-	-	-	3,622
Compensation cost of share-based payments	6(16)	-	-	10,345	-	-	-	-	-	10,345
Conversion of convertible bonds		5,988	60,046	18,624	-	-	-	-	-	84,658
Balance at December 31, 2019		$ 803,954	$ 60,957	$ 245,919	$ 500,481	$ 4,231	$ 1,008,490	($ 26,633)	$ -	$ 2,597,399

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

AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Years ended December 31 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 564,525	$ 1,004,319
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(6), (7) and (24)	64,292	46,649
Depreciation from investment Property	6(9) and (22)	2,528	1,544
Amortization	6(24)	8,188	8,735
Expected credit impairment losses/ Reversal of allowance for doubtful accounts	12(2)	120	(772
Net gain on financial assets or liabilities at fair value through profit or loss	6(13) and (22)	(2,763)	(2,227
Interest expense	6(23)	7,550	7,236)
Interest income	6(21)	(11,638)	(11,037
Compensation cost of share-based payments	6(16) and (25)	8,520	10,144)
Share of profit of associates and joint ventures accounted for under equity method	6(5)	(75,975)	(83,336
Loss (gain) on disposal of property, plant and equipment	6(22)	(48)	7
Gain on disposal of investments	6(22)	(305)	(423)
Gain on disposal of investment assets	6(22)	(100,677)	-)
Unrealized profit from sales		13,295	19,576)
Changes in assets/liabilities relating to operating activities			
Changes in assets relating to operating activities			
Financial assets at fair value through profit or loss		305	35,423
Notes receivable		3,827	(8,279)
Accounts receivable (including related parties)		7,099	(152,387)
Other receivables (including related parties)		45,716	(24,046)
Inventories		66,293	(144,419)
Prepayments		6,189	(6,838)
Other financial assets		-	148,800
Other current assets		(125)	328
Changes in liabilities relating to operating activities			
Contract liabilities		(3,800)	(3,382)
Notes payables		-	(798)
Accounts payable (including related parties)		(261,754)	179,314
Other payables		(18,200)	59,126
Advance receipts		(1,564)	1,960
Other current assets		158	326
Accrued pension liabilities		(990)	(810)
Cash inflow generated from operations		318,353	644,939
Receipt of interest		11,417	11,346
Payment of interest		(1,030)	(519)
Payment of income tax		(172,022)	(72,442)
Net cash flows provided by operating activities		156,718	583,324

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AXIOMTEK CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Thousands of New Taiwan Dollars)

	Notes	Years ended December 31 2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of financial assets at fair value through other comprehensive income		$ -	$ 1,630
Acquisition of investments accounted for using equity method	6(5)	(89,819)	(63,056)
Proceeds from disposal of investments for under equity method	6(29)	(36,539)	(35,786)
Proceeds from disposal of property, plant and equipment		48	6
Proceeds from disposal of investment properties		151,728	-
Acquisition of intangible assets	6(10)	(3,757)	(9,485)
Increase in refundable deposits		(513)	(223)
Net cash flows provided by (used in) investing activities		21,148	(106,914)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short -term borrowings		553,000	636,000
Redemption of short -term borrowings		(504,000)	(583,000)
Increase (decrease) in refundable deposits		(299)	(27)
Payment of cash dividends	6(19)	(298,784)	(439,004)
Proceeds from exercise of employee stock options	6(16)	3,622	5,913
Repayment of lease principal		(14,182)	-
Net cash flows provided by (used in) financing activities		(260,643)	(380,118)
Increase (Decrease) in cash and cash equivalents		(82,777)	96,292
Cash and cash equivalents at beginning of year		734,817	638,525
Cash and cash equivalents at end of year		$ 652,040	$ 734,817

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

AXIOMTEK CO., LTD.
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

1. ORGANIZATION AND OPERATIONS

Axiomtek Co., Ltd. (hereinafter referred to as "the Company" or “Axiomtek”) was incorporated in the Republic of China (R.O.C) in May 1990 and the Company’s common shares were officially listed on the Taipei Exchange on April 28, 2005. The Company is mainly engaged in designing, manufacturing and sales of PC-based industrial computer products and peripherals. The Company provides product lines of Industrial PCs (IPCs), Single Board Computers (SBCs), System on Modules (SoMs), Fanless and Rugged Embedded Systems (eBOX and rBOX), Intelligent Transportation Systems (tBOX and UST), Industrial IoT Gateway, Industrial EtherCAT Master solution, Touch Panel Computers (TPCs), Medical Panel Computers (MPCs), Digital Signage Solutions (DSSs), and Network Appliances (NAs) products.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

The parent company only financial statements were authorised for issuance by the Board of Directors on February 26 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”).

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
IFRS 9, ‘Financial instruments’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

IFRS 16, ‘Leases’

A. IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either operating leases or finance leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

B. The Company has elected to apply IFRS 16 by not restating the comparative information referred herein as the modified retrospective approach, when applying IFRSs effective in 2019 as endorsed by the FSC. Accordingly, the Company increased ‘right-of-use asset’ and lease liability by $55,854 on January 1, 2019.

C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:

(A) Reassessment as to whether a contract is, or contains, a lease is not required, and instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.

(B) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

(C) The accounting for operating leases whose period will end before December 31, 2019 as short-term lease and accordingly, rent expense of $1,308 was recognized for the years ended December 31, 2019.

(D) The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.

(E) The use of hindsight in determining the lease term which the Company assessing to exercise an extension option or not to exercise a termination option.

D. The Company calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate ranging is 1.00%.

E. The Company recognized lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognized as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$57,713
Less: Applying short-term leases exemption	(1,359)
Less: Lease payable recognized under finance lease by applying IAS 17 as at December 31, 2018	686
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	57,040
Incremental borrowing interest rate at the date of initial application	1.00%
Lease liabilities recognized as at January 1, 2019 by applying IFRS 16	$55,854

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest rate benchmark’	January 1, 2020

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IFRS 1, 'Definition of a business'	January 1, 2022

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the parent company only financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Statement of compliance

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of preparation

A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:
   (A) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
   (B) Financial assets at fair value through other comprehensive income/Available-for -sale financial assets measured at fair value.
   (C) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The parent company only financial statements are presented in New Taiwan dollars (NTD), which is the Company's functional and the Company's presentation currency.

A. Foreign currency transactions and balances

(A) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(B) Monetary assets and liabilities denominated in foreign currencies at the period end are retranslated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(C) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, nonmonetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(D) Foreign exchange gains and loss based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

(A) The operating results and financial position of all the Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognized in Exchange differences on translation of foreign operations.

(B) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interests in this foreign operation. In addition, if the Company still retains partial interests in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in these foreign operations.

(C) Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rates at the balance sheet date.

(4) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(A) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(B) Assets held mainly for trading purposes;

(C) Assets that are expected to be realized within twelve months from the balance sheet date;

(D) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

All assets that do not meet the above criteria are classified as non -current assets.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(A) Liabilities that are expected to be paid off within the normal operating cycle;
(B) Liabilities arising mainly from trading activities;
(C) Liabilities that are to be paid off within twelve months from the balance sheet date;
(D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. 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 liabilities that do not meet the above criteria are classified as non-current liabilities.

(5) Cash equivalent

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the above definition and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortized cost or fair value through other comprehensive income.
B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
C. At initial recognition, the Company measures the financial assets at fair value and recognizes the transaction costs in profit or loss. The Company subsequently measures the financial assets at fair value, and recognizes the gain or loss in profit or loss.
D. The Company recognizes the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

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

A. At initial recognition, the Company makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. The debt instruments are measured at fair value through other comprehensive income if both of the following conditions are met:

(A) The objective of the Company’s business model 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.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognized and derecognized using settlement date accounting.
C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs. The Company subsequently measures the financial assets at fair value:

(A) The changes in fair value of equity investments that are recognized in other comprehensive income are reclassified to retained earnings. When the equity instruments are derecognized the cumulative gain or loss previously recognized in other comprehensive income is not reclassified from equity to profit or loss. Dividends are recognized as revenue when the Company's right to receive payment is established, it is probable the economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(B) The changes in fair value of debt instruments that were recognized in other comprehensive income. Before derecognition, impairment gains or losses, interest revenue and foreign exchange gains and losses are recognized in profit or loss. When the debt instruments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

(8) Accounts and notes receivable

A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and accounts receivable that have a significant financing component, at each end of the financial reporting period, the Company recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognizes the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Operating leases (lessor)

Lease income from an operating lease (net of any incentives given to the lessee) is recognized in profit or loss on a straight-line basis over the lease term.

(12) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(13) Investments accounted for under equity method

A. Subsidiaries are all entities (including structured entity) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

B. Unrealized gains on transactions between the Company and its subsidiaries are eliminated to the extent of the Company's interest in the subsidiaries. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company should continue to recognize losses in proportion to its ownership.

D. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if all the related assets or liabilities were disposed of. That is, other comprehensive income in relation to the subsidiary should be reclassified to profit or loss.

E. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20% or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.

F. The Company's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

G. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognizes change in ownership interests in the associate in "capital surplus" in proportion to its ownership.

H. Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

I. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.

J. According to "Regulations Governing the Preparation of Financial Reports by Securities Issuers", profit and other comprehensive income in the separate financial statements should be the same as profit and other comprehensive income attributable to shareholders of the parent in the parent company only financial statements, and the equity in the separate financial statements should be the same as the equity attributable to shareholders of the parent in the parent company only financial statements.

(14) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. 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 must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	3 - 50 years
Machinery	3 - 20 years
Tools	2 - 5 years
Testing equipment	2 - 8 years
Office Equipment	2 - 10 Years
Leasehold improvements	2 - 10 Years
Other equipment	3 - 10 Years

(15) Leasing arrangements (lessee) - right-of-use assets/ lease liabilities

Effective 2019

A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable. The Company subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
   (A) The amount of the initial measurement of lease liability; and
   (B) Any initial direct costs incurred by the lessee.

(16) Leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(17) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 3 ~ 41 years.

(18) Intangible assets

A. Trademark
   Trademark is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 10 years.

B. Computer software
   Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 2 to 10 years.

C. Goodwill
   Goodwill arises in a business combination accounted for by applying the acquisition method.

(19) Impairment of non-financial assets

A. The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.
B. The recoverable amounts of goodwill shall be evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.
C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or group of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(20) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(21) Notes payable and accounts payable

A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.

B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(22) Financial liabilities at fair value through profit or loss

A. Such liabilities mean the financial liabilities designated to be measured at fair value through profit or loss. When a financial liability meets one of the following conditions, it is designated at fair value through profit or loss when it is originally recognized:

(A) is a mixed (combined) contract; or

(B) eliminate or significantly reduce the measurement inconsistencies; or

(C) An instrument whose performance is managed and evaluated on a fair value basis, based on written risk management or strategies.

B. At initial recognition, the Company measures the financial liabilities at fair value. All related transaction costs are recognized in profit or loss. The Company subsequently measures these financial liabilities at fair value with any gain or loss recognized in profit or loss.

(23) Convertible bonds payable

Convertible corporate bonds issued by the Company contain conversion options (that is, the bondholders have the right to convert the bonds into the Company's common shares by exchanging a fixed amount of cash for a fixed number of common shares), call options and put options. The Company classifies the bonds payable and derivative features embedded in convertible corporate bonds on initial recognition as a financial asset, a financial liability or an equity instrument ('capital surplus - stock options') in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument. Convertible corporate bonds are accounted for as follows:

A. Call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or losses.

B. Bonds payable of convertible corporate bonds is initially recognized at fair value and subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable/ preference share liabilities and presented as an addition to or deduction from bonds payable, which is amortised in profit or loss as an adjustment to the 'finance costs' over the period of bond circulation using the effective interest method.

C. Conversion options embedded in convertible corporate bonds issued by the Company, which meet the definition of an equity instrument, are initially recognized in 'capital surplus – stock options' at the residual amount of total issue price less amounts of 'financial assets or financial liabilities at fair value through profit or loss' and 'bonds payable - net' as stated above. Conversion options are not subsequently remeasured.

D. Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.

E. When bondholders exercise conversion options, the liability component of the bonds (including ‘bonds payable’ and ‘financial assets or financial liabilities at fair value through profit or loss’) shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of capital surplus - stock options.

(24) Non-hedging and embedded derivatives

A. Non-hedging derivatives are initially recognized at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognized in profit or loss.

B. A mixed contract of financial assets embedded in derivatives, at the time of the original recognition, determines that the overall hybrid tool is classified as financial assets measured at fair value through gains and losses, financial assets measured at fair value through other gains and losses, and financial assets measured at amortized cost.

C. The non-financial asset hybrid contract embedded in the derivative instrument determines whether the embedded derivative is closely related to the economic characteristics and risk of the main contract in the original recognition according to the terms of the contract to determine whether to separate or not. When it is closely related, the overall blending tool is treated according to its nature according to appropriate criteria. When it is not closely related, the derivative is separated from the principal contract and is treated as a derivative. The principal contract is treated according to its nature on the basis of appropriate criteria; or the overall recognition at the original recognition is a financial liability measured at fair value through profit or loss.

(25) Derecognition of financial liabilities

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

(26) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and reported in the net amount in the balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously

(27) Provisions for liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the financial reporting period**,** which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognized as interest expense. Provisions are not recognized for future operating losses.

(28) Employee benefits

A. Short-term employee benefits
Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should

be recognized as expenses in that period when the employees render service.

B. Pensions

(A) Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis.

(B) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

iii. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(29) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and nonmarket vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(30) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.

E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from acquisitions of equipment or technology and research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(31) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction from the proceeds.

(32) Dividends

Dividends are recorded in the Company’s financial statements in the period in which they are approved by the Company’s shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(33) Revenue recognition

A. Sales of goods

(A) The Company manufactures and sells industrial computer-related products. Sales are recognized when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers’ acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers have accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

(B) The sales revenue of industrial computer-related products is recognized according to the quantity of goods purchased by the customer and the price agreed upon after the quotation of the product item. The terms of collection for sales transactions are agreed upon in accordance with the generally accepted commercial transaction terms.

(C) The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.

(D) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Revenue from Labor Services

Revenue from labor services comes from product development and provision of extended warranty and maintenance services. When the transaction results of labor services can be reliably estimated, revenues are recognized based on the level of labor provided.

C. Acquisition of customer contract costs

Although the incremental costs incurred by the Company to obtain a customer contract are expected to be recoverable, the relevant contract period is less than leap year, so these costs are recognized as expenses when incurred.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of the parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below

(1) Critical judgements in applying the Company's accounting policies

None.

(2) Critical accounting estimates and assumptions

Evaluation of inventories

As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of December 31, 2019, the carrying amount of inventories was $444,363.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and petty cash	$519	$494
Checking accounts and demand deposits	227,802	502,477
Time deposits	393,739	231,846
Cash equivalents - Bonds with repurchase agreement	29,980	-
	$652,040	$734,817

A. The Company transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Company has no cash and cash equivalents pledged to others.

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

The Company adopted to classify the strategic equity investment in Align Technology Co. Ltd. as financial assets measured at fair value through other comprehensive income, but because the financial position and operating results were not satisfactory, the resolution was passed for disposal at $1,630 in March 2018, and the Company applied, for the first time, IFRS 9 to retrospectively adjust the cumulative impairment of $900 to increase retained surplus and reduce other interests. Upon its sale, the fair value amount of $707, was classified as equity instruments measured at fair value through other comprehensive income and did not have unrealized gains and losses and carry-over other benefits. As a result of the disposition, the net credit of $193 was transferred to retained earnings on the date of delivery.

(3) Notes and accounts receivable (including related parties)

	December 31, 2019	December 31, 2018
Notes receivable	$6,681	$10,508
Less: Loss allowance	-	-
	$6,681	$10,508
Accounts receivable	$191,206	$103,927
Accounts receivable - related parties	342,402	436,780
Less: Loss allowance	(175)	(55)
	$533,433	$540,652

A. Information relating to the ageing analysis of accounts receivable that were past due is provided in Note 12(2).

B. As of December 31, 2019 and 2018, notes and accounts receivable were all from contracts with customers. And as of January 1, 2018, the balance of receivables from contracts with customers amounted to $390,549.

C. The Company does not hold financial assets as security for accounts receivable.

D. Information relating to credit risk is provided in Note 12(2).

(4) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss and loss on obsolete and slow-moving inventories	Book value
Raw materials	$208,951	($20,180)	$188,771
Work in progress	74,690	(1,728)	72,962
Semi-finished goods	27,946	(3,949)	23,997
Finished goods	173,626	(14,993)	158,633
Inventories in transit	$485,213	($40,850)	$444,363
Total	$208,951	($20,180)	$188,771

	December 31, 2018		
	Cost	Allowance for valuation loss and loss on obsolete and slow-moving inventories	Book value
Raw materials	$239,501	($16,725)	$222,776
Work in progress	88,227	(2,443)	85,784
Semi-finished goods	26,549	(1,935)	24,614
Finished goods	182,793	(13,430)	169,363
Inventories in transit	8,119	-	8,119
Total	$545,189	($34,533)	$510,656

Relevant expenses of inventories recognized as operating costs for the years ended December 31, 2019 and 2018 are as follows:

	Years ended December 31	
	2019	2018
Cost of revenue	$2,311,874	$2,532,739
Loss on market value decline and obsolete and slow-moving inventories	18,355	18,759
Total	$2,330,229	$2,551,498

The Company has no inventories pledged to others.

(5) Investments accounted for using equity method

	December 31, 2019	December 31, 2018
AXIOM TECHNOLOGY, INC. U.S.A.(AXUS)	$465,060	$436,213
AXIOMTEK DEUTSCHLAND GMBH(AXGM)	209,511	190,324
AXIOM TECHNOLOGY (BVI) CO., LTD.(AXBVI)	83,482	52,663
AXIOMTEK ITALIA S.R.L.(AXIT)	49,635	-
AXIOMTEK JAPAN CO.,LTD.(AXJP)	7,832	6,983
AXIOMTEK UK LIMITED (AXUK)	3,739	7,118
Investments in associates		
UNIT-INNOVATE TECHNOLOGY CO.,LTD. (UNI)	27,570	29,033
Total	$846,829	$722,334

A. (A) Details of the Company's subsidiaries are provided in Note 4(3) of the Company's 2019 financial statements.

(B) To cater for future operating needs, the Company increased its capital in the subsidiary AXBVI by $33,751 and $34,056 in March 2019 and October 2018.

(C) The company purchased 100% equity of AXIT on January 4, 2019 for $ 56,068 in cash and has full control of AXIT. Please refer to Note 6(31) of the 2019 financial statements of the Company for details.

B. Investments in associates

December 1 2018 the Company acquired 26.7% of equity in UNI at $20 per share and the right to influence UNI's innovation.

C. Equity methods used in 2019 and 2018 to recognize Share of profit (loss) of associates and joint ventures accounted for using equity method:

	Years ended December 31	
	2019	2018
AXUS	$55,671	$42,410
AXGM	25,965	49,340
AXBVI	2,204	(7,627)
AXJP	929	(927)
UNI	(1,427)	33
AXUK	(3,473)	107
AXIT	(3,894)	-
Total	$75,975	$83,336

D. Details of Unrealized profit from sales of the subsidiaries and their subsidiaries at the end of the period are as follows:

	Years ended December 31	
	2019	2018
AXUS	$65,848	$51,016
AXGM	15,543	19,062
Axiomtek (Shenzhen) Co. Ltd. (AXSZ)	3,639	2,926
AXIT	1,233	-
UNI	36	-
Total	$86,299	$73,004

(6) Property, plant and equipment

	Land	Buildings	Machinery	Tools	Testing equipment	Office Equipment	Leasehold improvements	Others	Construction in progress	Total
At January 1, 2019										
Cost	$535,624	$417,560	$138,166	$57,556	$55,003	$70,265	$11,176	$13,641	$7,656	$1,306,647
Accumulated depreciation	-	(12,527)	(97,764)	(48,362)	(40,332)	(21,760)	(7,519)	(8,688)	-	(236,952)
	$535,624	$405,033	$40,402	$9,194	$14,671	$48,505	$3,657	$4,953	$7,656	$1,069,695
2019										
Opening net book amount	$535,624	$405,033	$40,402	$9,194	$14,671	$48,505	$3,657	$4,953	$7,656	$1,069,695
Additions	-	-	4,605	3,170	2,429	2,065	350	2,861	16,433	31,913
Disposals (Cost)	-	-	(1,883)	-	(922)	(174)	(1,300)	(380)	-	(4,659)
Disposals (Accumulated depreciation)	-	-	1,883	-	922	174	1,300	380	-	4,659
Reclassifications (Cost)	-	-	-	3,030	2,810	-	14,923	245	(21,008)	-
Depreciation	-	(8,351)	(13,560)	(7,652)	(5,105)	(7,829)	(4,168)	(2,920)	-	(49,585)
Closing net book amount	$535,624	$396,682	$31,447	$7,742	$14,805	$42,741	$14,762	$5,139	$3,081	$1,052,023
At December 31, 2019										
Cost	$535,624	$417,560	$140,888	$63,756	$59,320	$72,156	$25,149	$16,367	$3,081	$1,333,901
Accumulated depreciation	-	(20,878)	(109,441)	(56,014)	(44,515)	(29,415)	(10,387)	(11,228)	-	(281,878)
	$535,624	$396,682	$31,447	$7,742	$14,805	$42,741	$14,762	$5,139	$3,081	$1,052,023

	Land	Buildings	Machinery	Tools	Testing equipment	Office Equipment	Leasehold improvements	Others	Construction in progress	Total
At January 1, 2018										
Cost	$629,577	$460,019	$138,054	$47,317	$53,164	$19,168	$10,979	$10,906	$49,751	$1,418,935
Accumulated depreciation	-	(23,662)	(82,721)	(40,620)	(35,855)	(16,019)	(9,472)	(6,887)	-	(215,236)
	$629,577	$436,357	$55,333	$6,697	$17,309	$3,149	$1,507	$4,019	$49,751	$1,203,699
2018										
Opening net book amount	$ 629,577	$436,357	$55,333	$6,697	$17,309	$3,149	$1,507	$4,019	$49,751	$1,203,699
Additions	-	-	210	7,047	3,058	4,782	275	3,400	12,770	31,542
Disposals (Cost)	-	(115)	(98)	(92)	(1,219)	(312)	(1,271)	(665)	-	(3,772)
Disposals (Accumulated depreciation)	-	115	98	92	1,219	312	1,271	652	-	3,759
Reclassifications (Cost)	(93,953)	(42,344)	-	3,284	-	46,627	1,193	-	(54,865)	(140,058)
Reclassifications (Accumulated depreciation)	-	19,371	-	-	-	587	1,216	-	-	21,174
Depreciation	-	(8,351)	(15,141)	(7,834)	(5,696)	(6,640)	(534)	(2,453)	-	(46,649)
Closing net book amount	$535,624	$405,033	$40,402	$9,194	$14,671	$48,505	$3,657	$4,953	$7,656	$1,069,695
At December 31, 2018										
Cost	$535,624	$417,560	$138,166	$57,556	$55,003	$70,265	$11,176	$13,641	$7,656	$1,306,647
Accumulated depreciation	-	(12,527)	(97,764)	(48,362)	(40,332)	(21,760)	(7,519)	(8,688)	-	(236,952)
	$535,624	$405,033	$40,402	$9,194	$14,671	$48,505	$3,657	$4,953	$7,656	$1,069,695

A. The Company has no interest capitalised to property, plant and equipment.
B. Property, plant and equipment not a significant component.
C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(7) Leasing arrangements－lessee

Effective 2019

A. The Company leases various assets including land, buildings, machinery and equipment, office equipment, and other equipment. Rental contracts are typically made for periods of 1 months to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	December 31, 2019	Years ended December 31, 2019
Buildings	$47,297	$14,707

C. For the years ended December 31, 2019, the additions to right-of-use assets was $20,603.

D. The information on profit and loss accounts relating to lease contracts is as follows:

Items affecting profit or loss	Years ended December 31, 2019
Interest expense on lease liabilities	$510
Interest expense on lease liabilities	1,308

E. For the 2019, the Group’s total cash outflow for leases was $16,000.

(8) Leasing arrangements－lessor

Effective 2019

A. The Company leases various assets including land and buildings. Rental contracts are typically made for periods of 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

B. For the years ended December 31, 2019 and 2018, the Company recognized rent income in the amounts of $3,553 and $5,184, respectively, based on the operating lease agreement, which does not include variable lease payments.

C. The maturity analysis of the lease payments under the operating leases is as follows:

	December 31, 2019
2020	$3,616
2021	3,616
2022	1,919
	$9,151

(9) Investment property

	Land	Buildings	Total
At January 1, 2019			
Cost	$112,222	$55,007	$167,229
Accumulated depreciation	-	(27,409)	(27,409)
	$112,222	$27,598	$139,820
2019			
Opening net book amount	$112,222	$27,598	$139,820
Reclassifications (Cost)	(43,949)	(14,749)	(58,698)
Reclassifications (Accumulated depreciation	-	7,647	7,647

	Land	Buildings	Total
Depreciation	-	(2,528)	(2,528)
Closing net book amount	$68,273	$17,968	$86,241
At December 31, 2019			
Cost	$68,273	$40,258	$108,531
Accumulated depreciation	-	(22,290)	(22,290)
	$68,273	$17,968	$86,241

	Land	Buildings	Total
At January 1, 2018			
Cost	$18,269	$9,280	$27,549
Accumulated depreciation	-	(4,691)	(4,691)
	$18,269	$4,589	$22,858
2018			
Opening net book amount	$18,269	$4,589	$22,858
Reclassifications (Cost)	93,953	45,727	139,680
Reclassifications (Accumulated depreciation	-	(21,174)	(21,174)
Depreciation	-	(1,544)	(1,544)
Closing net book amount	$112,222	$27,598	$139,820
At December 31, 2018			
Cost	$112,222	$55,007	$167,229
Accumulated depreciation	-	(27,409)	(27,409)
	$112,222	$27,598	$139,820

A. Rental income and direct operating expenses of investment property:

	Years ended December 31	
	2019	2018
Rental income from investment property	$3,553	$5,184
Direct operating expenses arising from investment property that generated rental income	$1,975	$1,083
Direct operating expenses arising from investment property that did not generate rental income	$1,169	$1,651

B. The fair value of the investment property held by the Company was $185,890 and $368,683 as of December 31, 2019 and 2018, respectively, which was based on the transaction prices of similar properties in the same area.

C. No investment property was pledged to others.

(10) Intangible assets

	Trademark	Computer software	Goodwill	Total
At January 1, 2019				
Cost	$291	$57,952	$5,898	$64,141
Accumulated Amortization	(291)	(41,507)	-	(41,798)
	$-	$16,445	$5,898	$22,343
2019				
Opening net book amount	$-	$16,445	$5,898	$22,343
Additions	-	3,757	-	3,757
Disposals (Cost)	-	-	-	-
Disposals (Accumulated Amortization)	-	-	-	-
Reclassifications	-	-	-	-
Amortization	-	(8,188)	-	(8,188)
Closing net book amount	$-	$12,014	$5,898	$17,912
At December 31, 2019				
Cost	$291	$61,709	$5,898	$67,898
Accumulated Amortization	(291)	(49,695)	-	(49,986)
	$-	$12,014	$5,898	$17,912

	Trademark	Computer software	Goodwill	Total
At January 1, 2018				
Cost	$291	$48,923	$5,898	$55,112
Accumulated Amortization	(291)	(33,606)	-	(33,897)
	$-	$15,317	$5,898	$21,215
2018				
Opening net book amount	$-	$15,317	$5,898	$21,215
Additions	-	9,485	-	9,485
Disposals (Cost)	-	(834)	-	(834)
Disposals (Accumulated Amortization)	-	834	-	834
Reclassifications	-	378	-	378
Amortization	-	(8,735)	-	(8,735)
Closing net book amount	$-	$16,445	$5,898	$22,343
At December 31, 2018				
Cost	$291	$57,952	$5,898	$64,141
Accumulated Amortization	(291)	(41,507)	-	(41,798)
	$-	$16,445	$5,898	$22,343

A. The Company has no interest capitalised to intangible assets.

B. The details of the amortization charges of intangible assets are as follows:

	Years ended December 31	
	2019	2018
Operating costs	$3	$130
Selling expenses	11	-
General and administrative expenses	5,827	3,976
Research and development expenses	2,347	4,629
	$8,188	$8,735

(11) Short-term borrowings

Type of borrowings	December 31, 2019	Interest rate range	Collateral
Bank borrowings			
Credit borrowings	$ $102,000	0.97%~0.98%	None

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Credit borrowings	$53,000	0.97%	None

Interest expense recognized in profit or loss amounted to $511 and $526 for the years ended December 31, 2019 and 2018, respectively.

(12) Other payables

	December 31, 2019	December 31, 2018
Salaries and bonus payable	$127,730	$114,237
Accrued employees' compensation and directors' remuneration	62,292	77,765
Payable to equipment suppliers	4,449	9,075
Others	38,930	55,153
	$233,401	$256,230

(13) Financial liabilities at fair value through profit or loss

Item	December 31, 2019	December 31, 2018
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives (conversion of corporate debt options)	$-	$5,478
Evaluation adjustment	-	(2,718)
Total	$-	$2,760
Non-Current items:		
Financial liabilities held for trading		
Non-hedging derivatives (conversion of corporate debt options)	$4,328	-
Evaluation adjustment	(4,328)	-
Total	$-	-

The Company recognized net loss of $2,763 and $2,233 for the years ended December 31, 2019 and 2018, respectively.

(14) Bonds payable

	December 31, 2019	December 31, 2018
Bonds payable	$330,400	$418,200
Less: Discount on bonds payable	(10,782)	(20,443)
Less: Long-term liabilities, current portion	-	(397,757)
	$319,618	$-

A. Domestic unsecured conversion of corporate bonds issued by the company

(A) Issuance conditions for the first unsecured conversion of corporate bonds in the company are as follows:

i. The company is approved by the relevant authorities to raise and issue the first unsecured conversion company debt (referred to as "This conversion company debt"), the total issue of $420,000, at the coupon rate of 0%, for an issuance period of 5 years, circulation period from December 13, 2016 to December 13, 2021. When this conversion company debt expires, it will be repaid in cash in the denomination of the bond. This conversion company debt has been listed for trading at the Securities Counter Trading Center as of December 13, 2016.

ii. Unless (1) the period for suspension of transfer registration of common stock required by laws, (2) 15 business days prior to the date for suspension of transfer registration of allocated dividends requested by the Company, the date for suspension of transfer registration of cash dividends or the date for suspension of transfer registration of cash capital increase until the record date for allocation of rights, and (3) from the date of capital decrease until the day prior to the trading of stock swapped upon capital decrease, the bond holders may apply to the Taiwan Depository & Clearing Corporation (TDCC) (hereinafter referred to as the “Depository Corporation”) who would then notify the Company’s stock agent to convert the Bond into the Company’s common shares pursuant to the Regulations at any time one month after the issuance (January 14 2017) and throughout the duration (until December 13, 2021) of the bond.

iii. The conversion price of this conversion company debt shall be determined according to the pricing model stipulated in the conversion method, and the conversion price shall be adjusted in the event of the anti-dilution clause of the company in accordance with the pricing model stipulated in the conversion method.

iv. The bondholders must use as base dates (December 13, 2018) and (December 13, 2019) two and three years to expiry respectively, to sell the convertible corporate bond. On the base dates the company is required to buy back the converted corporate bonds held by the company at 102.01% and 103.0301% respectively, of the bonds.

v. From the day following the 3rd month of issuance (March 14 2017) of the bonds until 40 days prior to expiration of the duration, if the closing price of the Company's common shares at Taipei Exchange exceeds the current conversion price by more than 30% for 30 consecutive business days, the Company may send the “Notice of Call” to be matured in 30 days (the time limit shall commence from the Company's service date, and the record date of the call shall be the date when the time limit expires, and the conversion suspension period for the corporate bonds should not fall in the time limit) to the bond holders (those referred to the roster of creditors within five business days prior to the service date of the Notice of Call, while the investors who acquire the bonds through exchange or due to other causes subsequently, if any, shall be notified by public notice) via registered mail within 30 business days. Meanwhile, the Company shall ask Taipei Exchange in writing to post a public announcement, and shall call the corporate bonds held by the bond holders at the face value in cash within five (5) business days upon the record date.

vi. In accordance with the conversion scheme, all debts of the company recovered (including by the Securities Counter Trading Centre), repaid or converted will be cancelled, and all rights and obligations that are still attached to this conversion company's debt will also be eliminated and no longer issued.

(B) As of December 31, 2019, the company's debt denomination of $89,600 has been converted to 1,841,000 shares of common stock, completed on January 2, 2020.

(C) Since August 8, 2018 and July 8, 2019, the company's cash dividend ex-dividend, the conversion price has been recalculated according to the provisions of this bond issuance and conversion, from $56.9 to $52.0 and $52.0 to $48.6.

(D) As of December 31, 2019, the company has not bought back the bonds from the securities counter trading center.

B. When issuing convertible corporate bonds, the Company shall, in accordance with the provisions of international Accounting standard 32nd "Financial instruments: expression", separate the right of conversion of the nature of equity from the constituent elements of each liability, and account for the "capital reserve-equity" $24,360. The other embedded buying and selling rights, according to IAS 39 "Financial instruments: recognition and measurement" provisions, because it is not closely related to the economic characteristics and risks of the main contract debt commodities. The effective interest rate for the separation of COR contractual obligations is 0.141%.

(15) <u>Pensions</u>

A. (A) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions to cover the deficit by next March.

(B) The amounts recognized in the balance sheet are as follows:

	December 31, 2019	December 31, 2018
Present value of defined benefit obligations	($97,051)	($89,973)
Fair value of plan assets	51,942	48,228
Net defined benefit liability	($45,109)	($41,745)

(C) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2019			
Balance at January 1	($89,973)	$48,228	($41,745)
Interest (expense) income	(1,089)	584	(505)
	(91,062)	48,812	(42,250)
Remeasurements:			
Change in financial assumptions	(6,473)	-	(6,473)
Experience adjustments	484	1,635	2,119
	(5,989)	1,635	(4,354)
Pension fund contribution	-	1,495	1,495
Balance at December 31	($97,051)	$51,942	($45,109)

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	($84,069)	$46,656	($37,413)
Current service cost	(47)	-	(47)
Interest (expense) income	(1,345)	747	(598)
	(85,461)	47,403	(38,058)
Remeasurements:			
Change in demographic assumptions	(211)	-	(211)
Change in financial assumptions	(5,134)	-	(5,134)
Experience adjustments	(941)	1,144	203
	(6,286)	1,144	(5,142)
Pension fund contribution	-	1,455	1,455
Paid pension	1,774	(1,774)	-
Others	-	-	-
Balance at December 31	($89,973)	$48,228	($41,745)

(D) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(E) The principal actuarial assumptions used were as follows:

	Years ended December 31	
	2019	2018
Discount rate	0.78%	1.21%
Future salary increases	3.00%	3.00%

Assumptions regarding future mortality experience are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.5%	Decrease 0.5%	Increase 0.5%	Decrease 0.5%
December 31, 2019				
Effect on present value of defined benefit obligation	($6,677)	$7,275	$7,076	($6,570)
December 31, 2018				
Effect on present value of defined benefit obligation	($6,538)	$7,150	$6,985	($6,460)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The method and assumptions used for the preparation of sensitivity analysis during 2019 and 2018 are the same.

(F) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2020 amounts to $1,510.

(G) As of December 31, 2019, the weighted average duration of the defined benefit retirement plan is 14 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	$47,358
1 - 2 Years	7,895
3 - 4 Years	11,816
More than 5 years	13,447
	$80,516

B. (A)Effective July 1, 2005, the Company and its domestic subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

(B) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2019 and 2018 were $20,792 and $18,634, respectively.

(16) Share-based payment

A. For the years ended December 31, 2019 and 2018, the Company's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	August 19, 2015	1,500	6 Years	2 to 5 years' service
Employee stock options	April 12, 2018	1,600	5 Years	2 to 4 years of service

The share-based payment arrangements above are all settled by equity.

B. Details of the share-based payment arrangements are as follows:

	Years ended December 31			
	2019		2018	
	No. of options(in thousands)	Weighted average exercise price (in dollars)	No. of options(in thousands)	Weighted average exercise price (in dollars)
Options outstanding at beginning of the year, (2015 Issuing)	688	$22.10	951	$24.20
Stock options waived in the current period	-	-	-	-
Options exercised	(173)	20.93	(263)	22.48
Options outstanding at end of the year	515	20.70	688	22.10
Options exercisable at end of the year	430	20.70	172	22.10

	Years ended December 31			
	2019		2018	
	No. of options(in thousands)	Weighted average exercise price (in dollars)	No. of options(in thousands)	Weighted average exercise price (in dollars)
Options outstanding at beginning of the year, (2018 Issuing)	1,600	$52.70	-	$-
Stock options waived in the current period	-	-	1,600	57.70
Options exercised	(80)	49.30	-	-
Options outstanding at end of the year	-	-	-	-
Options exercisable at end of the year	1,520	49.30	1,600	52.70

C. Average price of Stock options exercised in 2019 and 2018 were $56.02 and $56.96 respectively

D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

		December 31, 2019		December 31, 2018	
Issue date approved	Expiry date	No. of shares (in thousands)	Exercise price (in dollars)	No. of shares (in thousands)	Exercise price (in dollars)
August 19, 2015	August 18, 2021	515	20.70	688	22.10
April 12, 2018	April 11, 2023	1,520	49.30	1,600	52.70

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options	August 19, 2015	27.57	27.57	36.2% ~ 38.11%	5 Years	0%	0.81%~ 0.97%	31.675~ 33.122
Employee stock options	April 12, 2018	57.70	57.70	28.13%~ 30.83%	4 Years	0%	0.63%~ 0.69%	12.49~ 15.46

F. Expenses incurred on share-based payment transactions are $8,520 and $10,144 for the years ended December 31, 2019 and 2018, respectively.

	Years ended December 31	
	2019	2018
Equity Settled	$8,520	$10,144

G. As of ex-dividend date July 23, 2019 the Company re-computed the strike prices for employee stock warrants issued in 2015 and 2017 accordingly using the regulated method and adjusted the strike prices respectively, from $22.1 and $52.7 to $20.7 and $49.3.

H. As of ex-dividend date August 8, 2018 the Company re-computed the strike prices for employee stock warrants issued in 2015 and 2017 accordingly using the regulated method and adjusted the strike prices respectively, from $24.2 and $57.7 to $22.1 and $52.7.

(17) Share capital

A. As of December 31, 2019, the Company’s authorized capital was $1,600,000, consisting of 160,000 thousand ordinary shares, and the paid-in capital was $803,954 with a par value of $10 (in dollars) per share, consisting of 80,395 thousand ordinary shares. All proceeds from shares issued have been collected.

B. Movements in the number of the Company's ordinary shares outstanding are as follows:

	Years ended December 31	
	2019(in thousands)	2018(in thousands)
At January 1	79,667	11,513
Exercise of employee stock options	173	263
Conversion of convertible bonds	1,807	34
At December 31	81,647	79,667

	December 31, 2019		December 31, 2018	
	Shares (in thousands)	Amount	Shares (in thousands)	Amount
Exercise of employee stock options(Advance receipts for share capital)	44	$911	47	$ 1,039
Conversion of convertible bonds(Advance receipts for share capital)	1,208	60,046	-	-

Information about the Conversion of convertible bonds and Exercise of employee stock options is provided in Note 6(14). And 6(16)

(18) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	Year ended December 31, 2019						
	Share premium	Convertible bond conversion premium	Treasury stock trading	Diff between book value & actual equity change from acquisition or disposal of subsidiary	Capital surplus from gain on disposal of assets	Employee stock options	Stock options
At January 1	$126,146	$1,465	$1,026	$176	$2	$61,889	$24,256
Exercise of employee stock options	1,990	-	-	-	-	-	-
Compensation cost of employee stock options	-	-	-	-	-	10,345	-
Conversion of convertible bonds	-	23,717	-	-	-	-	(5,093)
At December 31	$128,136	$25,182	$1,026	$176	$2	$72,234	$19,163

	Year ended December 31, 2018						
	Share premium	Convertible bond conversion premium	Treasury stock trading	Diff between book value & actual equity change from acquisition or disposal of subsidiary	Capital surplus from gain on disposal of assets	Employee stock options	Stock options
At January 1	$122,623	$-	$1,026	$176	$2	$50,376	$24,360
Exercise of employee stock options	3,523	-	-	-	-	-	-
Compensation cost of employee stock options	-	-	-	-	-	11,513	-
Conversion of convertible bonds	-	1,465	-	-	-	-	(104)
At December 31	$126,146	$1,465	$1,026	$176	$2	$61,889	$24,256

(19) Retained earnings

A. When allocating the net income for each fiscal year, the Company shall first offset its losses in previous years and set aside a legal capital reserve at 10% of the profits left over, where such legal reserve amounts to the total authorized capital, this provision will not apply. The Company would set aside or fund another sum as special reserve in accordance with the regulations of the Law or the rules of the Authorities, plus the rest of the and Accumulated Retained Earnings of preceding fiscal year (including the adjustment of undistributed earnings), and the meeting of Board of Directors would draft the Proposal for Distribution, and to authorize the distributable dividends and bonuses in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of directors, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. The Company distributing surplus earning in the form of new shares to be issued by the company in accordance with the preceding paragraphs shall follow the provisions of Article 240 of the Company Law of the Republic of China with a resolution adopted at a meeting of shareholders.

B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company’s paid-in capital.

C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

D. Details of 2018 and 2017 earnings appropriation resolved by the shareholders on May 29, 2019 and May 29, 2018, respectively are as follows:

	Years ended December 31			
	2018		2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$40,692		$92,624	
Special reserve	-		12,914	
Cash dividends	298,784	$3.75	439,004	$5.53
Total	$339,476		$544,542	

Details of 2019 earnings appropriation proposed by the Board of Directors on February 26, 2020 are as follows:

	Year ended December 31, 2019	
	Amount	Dividends per share (in dollars)
Legal reserve	$45,697	
Special reserve	22,403	
Cash dividends	326,925	$4
Total	$395,025	

E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(25).

(20) Operating revenue

A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Year ended December 31	
	2019	2018
Originating from transfer at a point in time:		
Design-in Services	$2,019,244	$2,013,200
Intelligent Platforms & Solutions Products Division	1,126,262	1,367,977
Others	228,937	231,218
Net sales revenue	3,374,443	3,612,395
Originating from the transfer of labor services over time:		
Other Operating revenue	32,701	16,769
Total	$3,407,144	$3,629,164

B. Contract liabilities

The Company has recognized the following contract assets and liabilities in relation to revenue from contracts with customers:

	December 31, 2019	December 31, 2018	January 1, 2018
Contract liabilities			
Contract liabilities-Advance payments	$17,597	$21,397	$24,779

The revenue recognized from the beginning balance of contract liability:

	Year ended December 31	
	2019	2018
The revenue recognized from the beginning balance of contract liability.	$20,594	$17,309

(21) Other income

	Year ended December 31	
	2019	2018
Rental revenue	$3,553	$5,184
Interest income		
Interest on Bank deposit:	10,104	8,522
Other interest income	1,534	2,515
Other income	6,584	9,490
Total	$21,775	$25,711

(22) Other gains and losses

	Year ended December 31	
	2019	2018
Net loss on financial assets at fair value through profit or loss	$-	($6)
Net gain on financial liabilities at fair value through profit or loss	2,763	2,233
Foreign exchange gains (losses)	(16,692)	33,981
Gain (loss) on disposal of property, plant and equipment	48	(7)
Loss (gain) on disposal of investment property	100,677	-
Loss (gain) on disposal of investments	305	423
Depreciation expense from investment property	(2,528)	(1,544)
Miscellaneous Expenditure	(780)	(1,883)
Gain on lease modification	1	-
Total	$83,794	$33,197

(23) Finance costs

	Year ended December 31	
	2019	2018
Interest expense		
Bank borrowings	$511	$535
Corporate bond discount	6,522	6,701
Lease liabilities	510	-
Other	7	-
Total	$7,550	$7,236

(24) Expenses by nature

	Years ended December 31	
	2019	2018
Employee benefit expense	$630,397	$598,187
Depreciation- property, plant and equipment	49,585	46,649
Depreciation-right of use assets	14,707	-
Amortization	8,188	8,735
Total	$702,877	$653,571

(25) Employee benefit expense

	Years ended December 31	
	2019	2018
Wages and salaries	$537,974	$511,989
Labor and health insurance fees	41,633	36,572
Pension costs	21,297	19,279
Compensation cost of employee stock options	8,520	10,144
Other employee benefit expense	20,973	20,203
Total	$630,397	$598,187

A. According to the company's articles of association, if the company is profitable in the year (ie after deducting the employee's remuneration and the director's remuneration from the net profit before tax), employee payout should be between 1% and 20% while directors' payout should be no more than 2%. However, if the Company has accumulated losses (including adjustments to unallocated surplus) these losses should first be offset.

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at $56,323 and $70,566, respectively; while directors' remuneration was accrued at $5,302 and $6,415, respectively. The aforementioned amounts were recognized in salary expenses.

In 2019, the pre-tax net profit for the year was deducted from the employee's compensation and the benefits before the director's remuneration were estimated at 9.03% and 0.85% respectively.

Employees' compensation and directors' remuneration for 2019 and 2018 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2019 and 2018 financial statements, and the employees' compensation will be distributed in the form of cash.

C. Information about employees' compensation and directors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(26) Income tax

A. Income tax expense

(A) Components of income tax expense:

	Years ended December 31	
	2019	2018
Current tax		
Current tax on profits for the year	$89,537	$100,423
Tax on undistributed earnings	3,614	37,693
Adjustments in respect of prior years	(595)	(1,577)
Total current tax	92,556	136,539
Deferred tax		
Origination and reversal of temporary differences	9,101	14,908
Impact of change in tax rate	-	6,154
Total deferred tax	9,101	21,062
Income tax expense	$101,657	$157,601

(B) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Years ended December 31	
	2019	2018
Remeasurements of defined benefit obligations	$871	$1,490
Currency translation differences of foreign operations	5,600	(1,587)
Total	$6,471	($97)

B. Reconciliation between income tax expense and accounting profit

	Years ended December 31	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate	$112,422	$112,905
Effect of items disallowed by tax regulation	(13,784)	2,426
Adjustments in respect of prior years	(595)	(1,577)
Effect from changes in tax regulation	-	6,154
Tax on undistributed earnings	3,614	37,693
Income tax expense	$101,657	$157,601

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	Year ended December 31, 2019			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
Deferred tax assets:				
Valuation loss and loss for market value decline and obsolete and slow-moving inventories	$6,907	$1,263	$-	$8,170
Unrealized gross margin	14,601	2,659	-	17,260
Unrealized exchange loss	313	2,945	-	3,258
Unused compensated absences payable	3,003	293	-	3,296
Unrealized warranty cost	229	(49)	-	180
Unrealized depreciation and interest	-	105	-	105
Defined benefit obligation	8,349	(198)	871	9,022
Amortization of convertible bond issuance costs	317	(317)	-	-
Exchange differences on translation	1,058	-	5,600	6,658
Subtotal	$34,777	$6,701	$6,471	$47,949
Deferred tax liabilities				
Net gain on investments accounted for using equity	($83,824)	($15,480)	$-	($99,304)
Convertible debt loss evaluation	(544)	(322)	-	(866)
Unamortized goodwill	(1,180)	-	-	(1,180)
Subtotal	($85,548)	($15,802)	$-	($101,350)
Total	($50,771)	($9,101)	$6,471	($53,401)

	Year ended December 31, 2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences				
Deferred tax assets:				
Valuation loss and loss for market value decline and obsolete and slow-moving inventories	$5,950	$957	$-	$6,907
Unrealized gross margin	9,083	5,518	-	14,601
Unrealized exchange loss	1,358	(1,045)	-	313
Unused compensated absences payable	2,322	681	-	3,003
Unrealized warranty cost	132	97	-	229
Impairment loss on financial assets	153	(153)	-	-
Defined benefit obligation	6,360	499	1,490	8,349
Amortization of convertible bond issuance costs	563	(246)	-	317
Exchange differences on translation	2,645	-	(1,587)	1,058
Subtotal	$28,566	$6,308	($97)	$34,777
Deferred tax liabilities				
Net gain on investments accounted for using equity	($57,089)	($26,735)	$-	($83,824)
Convertible debt loss evaluation	(86)	(458)	-	(544)
Unamortized goodwill	(1,003)	(177)	-	(1,180)
Subtotal	($58,178)	($27,370)	$-	($85,548)
Total	($29,612)	($21,062)	($97)	($50,771)

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

E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(27) Earnings per share

	Year ended December 31, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$460,455	79,996	$5.76
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,172	
Employee stock option	-	600	
Convertible bonds	6,205	8,331	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$466,660	90,099	$5.18

	Year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$406,924	79,471	$5.12
Diluted earnings per share			
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	1,516	
Employee stock option	-	626	
Convertible bonds	6,355	8,068	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$413,279	89,681	$4.61

(28) Operating lease

A. Rental income from the operating leases for land, housing and construction assets rented out by the Company and recognized accordingly in 2018 was $5,184 respectively. Such operating leases will expire in the period 2019 to 2020 and will not be renewed. Total minimum lease receivables due in the future from non-cancellable contracts are as follows:

	December 31, 2018
Within 1 year	$5,078
1 to 5 years	147
	$5,225

B. Operating leases on houses and construction assets with lease periods between 2013 and 2023. Rental expenses recognized in 2018 as $14,926 respectively Total minimum lease receivables due in the future from non-cancellable contracts are as follows:

	December 31, 2018
Within 1 year	$14,710
1 to 5 years	43,003
	$57,713

(29) Supplemental cash flow information

A. Partial cash paid for investing activities

	Years ended December 31	
	2019	2018
Purchase of property, plant and equipment	$31,913	$31,542
Add: Beginning balance of payable on equipment	9,075	13,319
Less: Ending balance of payable on equipment	(4,449)	(9,075)
Cash paid during the year	$36,539	$35,786

B. Financing activities not affecting cash flow:

	Years ended December 31	
	2019	2018
Conversion of corporate bond conversion into capital stock	$84,658	$1,707

(30) Changes in liabilities from financing activities

	Short-term borrowings	Lease liabilities	Liabilities from financing activities-gross
At January 1, 2019	$53,000	$55,854	$108,854
Changes in cash flow from financing activities	49,000	(14,692)	34,308
Impact of changes in foreign exchange rate	-	6,660	-
Other changes in non-cash items	$102,000	$47,822	$143,162
At December 31, 2019	$53,000	$55,854	$108,854

	Short-term borrowings	Liabilities from financing activities-gross
At January 1, 2018	$-	$-
Changes in cash flow from financing activities	53,000	53,000
At December 31, 2018	$53,000	$53,000

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Name of related parties	Relationship with the Company
Advantech CO., LTD. (Advantech)	Individuals with joint control or entities with significant influence
AXBVI	Subsidiary
AXUS	〃
AXGM	〃
AXUK	〃
AXJP	〃
AXIT	〃
AXSZ	A subsidiary which is wholly owned by AXBVI
ADVANIXS CORPORATION CO., LTD.	Other related parties
RETRONIX TECHNOLOGY INC. (Note)	〃
UNI	Associate

Note: No longer related to the Company as of May 29, 2018

(2) Significant related party transactions and balances

A. Sale

	Years ended December 31	
	2019	2018
Sales of goods		
Individuals with joint control or significant influence on the company	$345	$393
Subsidiary		
AXUS	1,442,071	1,519,790
AXGM	410,369	556,403
Others	145,639	65,656
Associate	342	
Total	$1,998,766	$2,142,242

The sales prices and the trading terms to related parties above were not significantly different from those of sales to third parties.

B. Purchase

	Years ended December 31	
	2019	2018
Purchase of goods		
Individuals with joint control or entities with significant influence	$25,290	$31,863
Subsidiary	51,158	25,970
Other Related Party	26,732	33,548
Total	$103,180	$91,381

The purchase prices and the trading terms to related parties above were not significantly different from those of purchase to third parties.

C. Account receivable -related parties

	December 31, 2019	December 31, 2018
Receivables from related parties		
Individuals with joint control or entities with significant influence	$-	$74
Subsidiary		
AXUS	283,446	405,587
Others	17,923	21,409
Second-tier subsidiary		
AXSZ	40,980	9,710
Associate	53	-
Total	$342,402	$436,780

The receivables from related parties arise mainly from sales transactions. The receivables are due 45~90 days after the date of sale. The receivables are unsecured in nature and bear no interest.

D. Loans to related parties: (as other receivable -related party)

(A) Ending balance (including interest receivable):

	December 31, 2019	December 31, 2018
Subsidiary-AXUS	$30,055	$61,584
Second-tier subsidiary-AXSZ	17,220	23,739
	$47,275	$85,323

(B) Interest income

	Years ended December 31	
	2019	2018
Subsidiary-AXUS	$1,080	$1,665
Second-tier subsidiary-AXSZ	317	289
	$1,397	$1,954

The loans to subsidiaries AXUS and AXSZ are repayable over 1 year and carry interest at 3% and 1.75% per annum for both years ended December 31, 2019 and 2018.

E. Account payable -related parties

	December 31, 2019	December 31, 2018
Payables to related parties		
Individuals with joint control or entities with significant influence	$3,314	$3,279
Subsidiary	8,539	6,931
Other related parties	1,761	10,471
Total	$13,614	$20,681

The payables from related parties arise mainly from purchase transactions. The payables are due 45~75 days after the date of sale. The payables are bear no interest.

F. Endorsements and guarantees

As of 2019 and December 31, 2018 the Company acted as guarantor for subsidiary AXGM for a loan from NVIDIA. Amount USD250,000 as of 2019 and December 31, 2018 AXGM's accounts payable to NVIDIA were USD125,000 and USD105,000 respectively.

(3) Key management compensation

	Years ended December 31	
	2019	2018
Short-term employee benefits	$48,078	$46,319
Share-based payment	6,034	5,007
Post-employment compensation	1,351	1,431
Total	$55,463	$52,757

8. PLEDGED ASSETS

None

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingency

None.

(2) Commitments:

Please refer to Note 7 (2)6 for the Endorsements and guarantees.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2019	December 31, 2018
Financial assets		
Financial assets at amortized cost	$1,258,899	$1,395,879

	December 31, 2019	December 31, 2018
Financial liabilities		
Financial liabilities held for trading	$-	$2,760
Financial Liabilities at amortized cost	952,166	1,266,187
	$952,166	$1,268,947

Note: Financial assets at amortized cost includes cash and cash equivalents, notes and accounts receivable (including related parties), other receivables and guarantee deposits paid; financial liabilities at amortized cost includes short-term borrowings, notes and accounts payable (including related parties), other payables (including related parties), bonds payable (including current portion), long-term borrowings (including current portion) and guarantee deposits received.

B. Risk management policy

(A) The Company's activities expose it to a variety of financial risk: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

(B) Risk management is carried out by a finance department under policies approved by the Board of Directors. Company finance department identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(A) Market risk

Foreign exchange risk

i. The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD, EUR, GBP, JPY and RMB. Exchange rate risk arises from future commercial transactions and recognized assets and liabilities.

ii. Management has set up a policy to require Company companies to manage their foreign exchange risk against their functional currency.

iii. The Company's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: USD, RUR, GBP, JPY and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019				
				Sensitivity analysis	
	Foreign currency amount (in thousand)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss
(Foreign Currency: Functional currency)					
Financial assets					
Monetary items					
USD : NTD	$35,851	29.98	$1,074,813	1%	$8,599
EUR : NTD	664	33.59	22,304	1%	178
RMB : NTD	21,093	4.31	90,911	1%	727
Non-monetary items					
USD : NTD	$15,960	29.98	$478,481	1%	$3,828
EUR : NTD	7,394	33.59	248,364	1%	1,987
JPY : NTD	28,377	0.28	7,946	1%	63
GBP : NTD	95	39.36	3,739	1%	30
Financial liabilities					
Monetary items					
USD : NTD	$5,534	29.98	$165,909	1%	$1,327

	December 31, 2018				
				Sensitivity analysis	
	Foreign currency amount (in thousand)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss
(Foreign Currency: Functional currency)					
Financial assets					
Monetary items					
USD : NTD	$35,902	30.72	$ 1,102,909	1%	$8,823
EUR : NTD	1,819	35.20	64,029	1%	512
RMB : NTD	14,744	4.47	65,906	1%	527
JPY : NTD	1,822	0.28	510	1%	4
Non-monetary items					
USD : NTD	$14,156	30.72	$ 434,872	1%	$3,479
EUR : NTD	5,948	35.20	209,370	1%	1,675
JPY : NTD	25,099	0.28	7,028	1%	56
GBP : NTD	183	38.88	7,115	1%	57
Financial liabilities					
Monetary items					
USD : NTD	$11,420	30.72	$ 350,822	1%	$2,806
JPY : NTD	2,708	0.28	758	1%	6

iv. The total exchange gain or loss, including realized and unrealized gains or losses arising from significant foreign exchange variations on monetary items held by the Company for the years ended December 31, 2019 and 2018, amounted to gain of $16,692 and loss of $33,981, respectively.

Price risk

The Company's equity instruments, which are exposed to price risk, are the financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity instruments, the Company diversifies its portfolio. Diversification of the portfolio is in accordance with the limits set by the Company.

(B) Credit risk

Effective from 2019

i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, debt instruments classified as at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss.

ii. The Company manages their credit risk taking into consideration the entire Company's concern. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors.

iii. The Company adopts the following assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

(i) If the contract payments are past due over 90 days based on the terms, there is a significant increase in credit risk on that instrument since initial recognition.

(ii) A bond investment traded at the counter buying center, which has any external rating agency rated as the investment grade on the balance sheet date, and the financial asset is considered to have a low credit risk.

iv. The Company adopts the assumptions under IFRS 9 and the default is deemed to have occurred when the contract payments are past due over 90 days.

v. The Company classifies customer's notes and accounts receivable in accordance with product types and customer types. The Company applies the simplified approach using provision matrix to estimate expected credit loss under the provision matrix basis.

vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:

(i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;

(ii) The disappearance of an active market for that financial asset because of financial difficulties;

(iii) Default or delinquency in interest or principal repayments;

(iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

vii. The Company wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Company will continue executing the recourse procedures to secure their rights. On December 31, 2019 and 2018, the Company has written-off financial assets amounted to $226 that are still under recourse procedures.

viii. The Company uses the forecastability of National Development Council Business Cycle Indicator to adjust historical and timely information to assess the default possibility of notes and accounts receivable. On December 31, 2019, the provision matrix is as follows:

December 31, 2019	Not overdue	Overdue 1 ~ 90 days	Overdue 91 ~ 180 days	Overdue 181 ~ 270 days
Expected loss rate	0%-0.05%	0.05%	0.05%	0.05%
Total book value	$453,705	$86,479	$18	$-
Loss allowance	$49	$39	$-	$-

December 31, 2019	Overdue 271 ~ 360 days	Overdue More than 360 days	Total
Expected loss rate	65.53%	100.00%	
Total book value	$-	$87	$540,289
Loss allowance	$-	$87	$175

December 31, 2018	Not overdue	Overdue 1 ~ 90 days	Overdue 91 ~ 180 days	Overdue 181 ~ 270 days
Expected loss rate	0%-0.05%	0.05%	0.05%	0.05%
Total book value	$546,538	$3,978	$138	$561
Loss allowance	$53	$2	$-	$-

December 31, 2018	Overdue 271 ~ 360 days	Overdue More than 360 days	Total
Expected loss rate	0.05%	100%	
Total book value	$-	$-	$551,215
Loss allowance	$-	$-	$55

ix. Ageing analysis of notes and accounts receivable as follows:

	December 31, 2018		December 31, 2018	
	Accounts receivable	Notes receivable	Accounts receivable	Notes receivable
Not overdue	$536,030	$10,508	$536,030	$10,508
within 30 days	3,978	-	3,978	-
31 ~ 90 days	138	-	138	-
91 ~ 180 days	561	-	561	-
More than 181 days	-	-	-	-
	$540,707	$10,508	$540,707	$10,508

x. Ageing analysis of notes and accounts receivable as follows:

	December 31, 2019		December 31, 2018	
	Notes receivable	Accounts receivable	Notes receivable	Accounts receivable
Not overdue	$6,681	$447,024	$10,508	$536,030
within 30 days	-	8,915	-	3,520
31 ~ 90 days	-	77,564	-	458
91 ~ 180 days	-	18	-	138
More than 181 days	-	87	-	561
	$6,681	$533,608	$10,508	$540,707

The above is an age analysis based on the number of overdue days.

xi. Movements in relation to the Company applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	Years ended December 31, 2019
	Accounts receivable
January 1	$55
Impairment loss	120
December 31	$175

	Years ended December 31, 2018
	Accounts receivable
January 1 IAS 39	$827
Applied new criteria adjustments	-
January 1 IFRS 9	827
Impairment loss	(772)
December 31	$55

xii. The Company uses the forecastability of National Development Council Business Cycle Indicator to adjust historical and timely information to assess the default possibility of investment of debt instrument on December 31, 2019 and 2015.

(C) Liquidity risk

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The contractual cash flow amount disclosed in the following table is the undiscounted amount.

December 31, 2019

Non-derivative financial liabilities	Within 1 year	1 ~ 2 years	2 ~ 5 years	More than 5 years	Total
Long-term borrowings (including current portion)	$16,638	$14,409	$17,515	$-	$48,562
Lease liabilities	-	330,400	-	-	330,400

(3) <u>Fair value information</u>

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: The input value for this level is the open quote (unadjusted) of the same asset or liability in the active market. An active market is a market that meets all of the following conditions: the goods traded in the market are homogeneous; the buyers and sellers with the willingness can be found in the market at any time and the price information can be obtained by the public. The fair value of the beneficiary certificate the company's investment belongs to.

Level 2: The input value of this level, except for the observable price included in the first level public offer, including the observable input value obtained from the active market either directly (such as price) or indirectly (such as derived from price).

Level 3: Inputs to this level are not based on observable market data.

B. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets are as follows:

The financial liabilities measured by fair value through profit and loss of the Company for the periods as of 31 December 2019 and 2018 are the second level of financial instrument, amounts $0 and $2,760.

C. The methods and assumptions the Company used to measure fair value are as follows:

(A) The Company uses the net value of the beneficiary certificate as the fair value input value of the first-tier market quotation.

(B) The evaluation of derivative financial instruments is based on the option pricing model accepted by market users.

D. In 2019 and 2018, there was no evaluation of the transfer between levels.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: Please refer to table 1.

B. Provision of endorsements and guarantees to others: Please refer to table 2.

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital: Please refer to table 3.

E. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.

F. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 4.

H. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: Please refer to table 5.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Notes 6(13), 6(14).

J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China)：Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: For the major transactions between the Company and the Mainland China invested companies in 2018, please refer to table 6.

AXIOMTEK CO., LTD.
CASH AND CASH EQUIVALENTS
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Description	Amount	Remark
Cash on hand and petty cash			
NTD		$ 519	
Cash Equivalents			
USD	USD 1,000, exchange rate 29.98 (Note)	29,980	
Bank deposit:			
Checking accounts and demand deposits			
NTD		22,227	
USD	USD 6,149, exchange rate 29.98 (Note)	184,356	
EUR	EUR 495, exchange rate 33.59 (Note)	16,622	
CNY	CNY 1,068, exchange rate 4.305 (Note)	4,597	
Time deposits			
USD	USD 12,200, exchange rate 29.98 (Note)	365,756	
CNY	CNY 6,500, exchange rate 4.305 (Note)	27,983	
		621,541	
		$ 652,040	

Note: Foreign currency amount expressed in thousands.

AXIOMTEK CO., LTD.
ACCOUNTS RECEIVABLE
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Customer name	Amount	Remark
Customer A	$ 101,354	
Customer B	9,903	
Customer C	9,460	
Others	70,489	None of the individual customer exceeds 5% of this account
	191,206	
Less: Allowance for doubtful accounts	(175)	
	$ 191,031	

AXIOMTEK CO., LTD.
INVENTORIES
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount		Remark
	Cost	Net realizable value	
Raw materials	$ 208,951	$ 188,772	Use replacement cost as net realizable value
Work in process	74,690	72,962	Use market price as net realizable value
Semi-finished goods	27,946	23,996	
Finished goods	173,626	205,602	
	485,213	$ 491,332	
Less: Allowance for inventory valuation losses	(40,850)		
	$ 444,363		

Note: Slow-moving inventory, if any, calculated separately.

AXIOMTEK CO., LTD.
CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

		Balance at January 1, 2018		Additions (Note 1)		Deductions (Note 2)		Balance at December 31, 2018			Market value or net equity value			
Investee	Investment type	Shares (Note 3)	Amount	Shares (Note 3)	Amount	Shares (Note 3)	Amount	Shares (Note 3)	Ownership	Amount	Unit price (NT$)	Total price	Valuation basis	Collateral
AXUS	Stock	23	$ 487,229	-	55,671	-	($11,992)	23	100%	$ 530,908	$ -	$ 478,484	Equity method	None
AXGM	Stock	-	209,386	-	25,965	-	(10,296)	-	100%	225,055	-	225,055	Equity method	None
AXBV1	Stock	4	55,589	1	35,954	-	(4,422)	5	100%	87,121	-	87,387	Equity method	None
UNI	Stock	1,450	29,033	-	-	-	(1,428)	1,450	26.70%	27,605	-	17,994	Equity method	None
AXUK	Stock	180	7,118	-	94	-	(3,473)	180	100%	3,739	-	3,739	Equity method	None
AXJP	Stock	600	6,983	-	929	-	(80)	600	100%	7,832	-	7,832	Equity method	None
AXIT	Stock	-	-	-	56,068		(5,200)	-	100%	50,868	-	23,320	Equity method	None
			795,338		174,681		(36,891)			933,128				
Less: Ending unrealized gain from sale			(73,004)		-		(13,295)			(86,299)				
			$ 722,334		$ 174,681		($ 50,186)			$ 846,829				

Note 1: Increase in the current period includes the share of the interests of the subsidiaries recognized by the equity method, the newly added investment using the equity method and the accumulated conversion of the financial statements of foreign operating institutions.
Note 2: Current reduction includes the share of losses of subsidiaries recognized by the equity method.
Note 3: The number of shares is in thousands of shares. Not holding shares - limited company.

AXIOMTEK CO., LTD.
CHANGES IN THE COST OF PROPERTY, PLANT AND EQUIPMENT
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Balance at January 1, 2019	Additions	Disposals	Transfers	Balance at December 31, 2019	Collateral	Remark
Land	$ 535,624	$ -	$ -	$ -	$ 535,624	None	
Buildings	417,560	-	-	-	417,560	-	
Machinery	138,166	4,605	(1,883)	-	140,888	-	
Tools	57,556	3,170	-	3,030	63,756	-	
Testing equipment	55,003	2,429	(922)	2,810	59,320	-	
Office equipment	70,265	2,065	(174)	-	72,156	-	
Leasehold improvements	11,176	350	(1,300)	14,923	25,149	-	
Other equipment	13,641	2,861	(380)	245	16,367	-	
	1,298,991	15,480	(4,659)	21,008	1,330,820		
Construction in progress	7,656	16,433	-	(21,008)	3,081	-	
	$ 1,306,647	31,913	($ 4,659)	$ -	$ 1,333,901		

AXIOMTEK CO., LTD.
CHANGES IN ACCUMULATED DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Balance at January 1, 2019	Additions	Disposals	Transfers	Balance at December 31, 2019	Remark
Buildings	$ 12,527	8,351	$ -	$ -	$ 20,878	
Machinery	97,764	15,141	(1,883)	-	109,441	
Tools	48,362	7,834	-	-	56,014	
Testing equipment	40,332	5,696	(922)	-	44,515	
Office equipment	21,760	6,640	(174)	-	29,415	
Leasehold improvements	7,519	534	(1,300)	-	10,387	
Other equipment	8,688	2,453	(380)	-	11,228	
	$ 236,952	$ 46,649	($ 4,659)	$ -	$ 281,878	

AXIOMTEK CO., LTD.
SHORT-TERM BORROWINGS
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Creditor	Ending balance	Contract period	Interest rate range	Line of credit	Collateral	Remark
Hua Nan Bank	$ 10,000	108.11.6~109.2.6	0.97%	$ 150,000	None	-
Taishin International Bank	63,000	108.12.27~109.1.22	0.97%	$ 150,000	None	-
Mega International Commercial Bank	29,000	108.3.29~109.3.28	0.98%	$ 100,000	None	-
	$ 102,000			$ 400,000		

AXIOMTEK CO., LTD.
ACCOUNTS PAYABLE
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Vendor name	Amount	Remark
Vendor A	$ 51,641	
Vendor B	14,660	
Others	215,954	None of the individual vendor exceeds 5% of this account
	$ 282,255	

AXIOMTEK CO., LTD.
OTHER PAYABLE
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount	Remark
Salaries & bonuses payable	$ 127,730	
Employees & directors compensation payable	62,292	
Other expenses payable	43,379	None of the individual item exceeds 5% of this account
	$ 233,401	

AXIOMTEK CO., LTD.
BONDS PAYABLE
December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Bonds Name	Trustee	Issuance Date	Coupon Rate (%)	Amount					Repayment method	Collateral	Remark
				Total Amount	Converted amount	Ending Balance	Unamortized discount	Book Value			
1st Domestic Unsecured Convertible Bonds	Mega International Commercial Bank	2016.12.13	0 %	$ 420,000	($ 89,600)	$ 330,400	($ 10,782)	$ 319,618	One-time payment of face value in cash upon expiration	None	As of December 31, 2019, the company's debt denomination of $89,600 has been converted to 1,841,000 shares of common stock

AXIOMTEK CO., LTD.
OPERATING REVENUE
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Quantity	Amount	Remark
Sales revenue			
Intelligent platforms & solutions products division	Note:	$ 1,128,066	
Design-in services		2,025,057	
Others	-	229,971	
		3,383,094	
Less: Sales return	Note:	(2,931)	
Sales Discount	Note:	(5,720)	
		3,374,443	
Other operating revenue	Note:	32,701	
		$ 3,407,144	

AXIOMTEK CO., LTD.
OPERATING COSTS
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount
Beginning raw materials & semi-finished goods	$ 266,050
Add: Purchased during the year	1,266,387
Less: Ending raw materials & semi-finished goods	(236,897)
Sale of raw materials & semi-finished goods	(25,707)
Scrap of raw materials & semi-finished goods	(7,393)
Transfer to manufacturing expenses	(12,139)
Consumption of raw materials & semi-finished goods for the year	1,250,301
Direct labor	65,448
Manufacturing expenses	225,402
Adjustment of discrepancy in production	115,437
Manufacturing Costs	1,656,588
Add: Beginning work in process	88,227
Less: Ending work in process	(74,690)
Cost of finished goods	1,670,125
Add: Beginning finished goods	190,912
Acquisition of finished goods	591,363
Less: Ending finished goods	(173,626)
Scrap of finished goods	(4,644)
Cost of goods manufactured	2,274,130
Cost of sale of raw materials & semi-finished goods	25,707
Inventory scrapping loss	12,037
provision for inventory valuation loss	18,355
	$ 2,330,229

AXIOMTEK CO., LTD.
MANUFACTURING EXPENSES
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount	Summary
Indirect labor	$ 73,412	
Processing fees	75,280	
Depreciation	29,832	
Insurance	13,505	
Other expenditure	33,373	None of the individual item exceeds 5% of this account
	$ 225,402	

AXIOMTEK CO., LTD.
SELLING EXPENSES
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount	Remark
Wages and salaries	$ 70,650	
Advertisement	15,257	
Traveling expenses	8,909	
Commission expenses	8,272	
Other expenses	18,889	None of the individual item exceeds 5% of this account
	$ 121,977	

AXIOMTEK CO., LTD.
ADMINISTRATIVE EXPENSES
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount	Remark
Wages and salaries	$ 70,272	
Professional service fees	5,289	
Depreciation from investment Property	5,826	
Other expenses	20,547	None of the individual item exceeds 5% of this account
	$ 101,934	

AXIOMTEK CO., LTD.
RESEARCH AND DEVELOPMENT EXPENSES
For the year ended December 31, 2019
(Expressed in thousands of New Taiwan dollars)

Item	Amount	Remark
Wages and salaries	$ 288,009	
Depreciation expense	26,695	
Miscellaneous purchases	25,883	
Professional service fees	24,681	
Other expenses	86,203	None of the individual item exceeds 5% of this account
	$ 451,471	

AXIOMTEK CO., LTD.
Loans to others
For the year ended December 31, 2019

Table 1

Expressed in thousands of NTD dollars
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account (Note 2)	Is a related party	Maximum outstanding balance during the year ended December 31, 2019 (Note 3)	Balance at December 31, 2019 (Note 8)	Actual amount drawn down	Interest rate	Nature of loan (Note 4)	Amount of transactions with the borrower (Note 5)	Reason for short-term financing (Note 6)	Allowance for bad debts	Collateral		Limit on loans granted to a single party (Note 7)	Ceiling on total loans granted (Note 7)	Footnote
													Item	Value			
0	AXIOMTEK CO., LTD.	AXUS	Other receivables-related parties	Y	$63,200	$59,960	$29,980	3%	1	$1,442,071	-	-	-	-	$259,740	$1,038,960	
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	Other receivables-related parties	Y	39,126	17,220	17,220	1.75%	1	117,016	-	-	-	-	$259,740	$1,038,960	

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:
(1) The Company is ‘0’.
(2) The subsidiaries are numbered in order starting from ‘1’.
Note 2: Fill in the name of account in which the loans are recognized, such as receivables–related parties, current account with stockholders, prepayments, temporary payments, etc.
Note 3: Fill in the maximum outstanding balance of loans to others during the nine-month period ended December 31, 2018
Note 4: The credit and nature of the funds are described below:
(1) Those with business dealings fill in 1.
(2) Those pertaining to short-term financing shall fill in 2.
Note 5: Fill in the amount of business transactions when nature of the loan is related to business transactions, which is the amount of business transactions occurred between the creditor and borrower in the current year.
Note 6: Fill in purpose of loan when nature of loan is for short-term financing, for example, repayment of loan, acquisition of equipment, working capital, etc.
Note 7: In accordance with the company's funds and endorsement of the guarantee operating procedures, the company and its subsidiaries as a whole the total amount of loans to no more than the company's most recent consolidated financial statements attributed to the parent company owners of the interest of 40%.
And the company and its subsidiaries as a whole, the amount of credit to a single enterprise to no more than the company's most recent consolidated financial statements attributed to the owners of the parent company 10% limit.
Note 8: The amounts of funds to be loaned to others which have been approved by the Board of Directors of a public company in accordance with Article 14, Item 1 of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies” should be included in its published balance of loans to others at the end of the reporting period to reveal the risk of loaning the public company bears, even though they have not yet been appropriated. However, this balance should exclude the loans repaid when repayments are done subsequently to reflect the risk adjustment. In addition, if the Board of Directors of a public company has authorized the chairman to loan funds in instalments or in revolving within certain lines and within one year in accordance with Article 14, Item 2 of the “Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies”, the published balance of loans to others at the end of the reporting period should also include these lines of loaning approved by the Board of Directors, and these lines of loaning should not be excluded from this balance even though the loans are repaid subsequently, for taking into consideration they could be loaned again thereafter.

AXIOMTEK CO., LTD.

Provision of endorsements and guarantees to others

For the year ended December 31, 2019

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

No. (Note 1)	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount as of December 31, 2019 (Note 4)	Outstanding endorsement/ guarantee amount at December 31, 2019 (Note 5)	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 4)	Provision of endorsements/ guarantees by parent company to subsidiary (Note 7)	Provision of endorsements/ guarantees by subsidiary to parent company (Note 7)	Provision of endorsements/ guarantees to the party in Mainland China (Note 7)	Footnote
		Company Name	Relationship (Note 2)											
0	AXIOMTEK CO., LTD.	AXGM	2	$259,740	USD 250,000	USD 250,000	USD 125,000	-	0.29%	1,298,700	Y	-	-	

Note 1:The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:
(1) The Company is ‘0’.
(2) The subsidiaries are numbered in order starting from ‘1’.

Note 2:Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:
(1) Having business relationship.
(2) The endorser/guarantor parent company owns directly and indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.
(3) The endorsed/guaranteed company owns directly and indirectly more than 50% voting shares of the endorser/guarantor parent company.
(4) The endorser/guarantor parent company owns directly and indirectly more than 90% voting shares of the endorsed/guaranteed company.
(5) Mutual guarantee of the trade made by the endorsed/guaranteed company or joint contractor as required under the construction contract.
(6) Due to joint venture, all shareholders provide endorsements/guarantees to the endorsed/guaranteed company in proportion to its ownership.
(7) Joint guarantee of the performance guarantee for pre-sold home sales contract as required under the Consumer Protection Act.

Note 3: According to the company's fund loan and endorsement guarantee procedures, the company's endorsement guarantee for a single enterprise is limited to 10% of the equity of the company's owners in the most recent consolidated financial statements.

Note 4: According to the company's fund loan and endorsement guarantee procedures, the total amount of endorsement guarantees of the Company and its subsidiaries as a whole is not more than 50% of the equity of the owners of the parent company in the most recent consolidated financial statements.
And the amount of the endorsement of the single company by the Company and its subsidiaries is limited to 10% of the equity of the owner of the parent company in the most recent consolidated financial statements.

Note 5: Once endorsement/guarantee contracts or promissory notes are signed/issued by the endorser/guarantor company to the banks, the endorser/guarantor company bears endorsement/guarantee liabilities. And all other events involve endorsements and guarantees should be included in the balance of outstanding endorsements and guarantees.

Note 6: Fill in the actual amount of endorsements/guarantees used by the endorsed/guaranteed company.

Note 7: Fill in ‘Y’ for those cases of provision of endorsements/guarantees by listed parent company to subsidiary and provision by subsidiary to listed parent company, and provision to the party in Mainland China.

AXIOMTEK CO., LTD.

Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital

For the year ended December 31, 2019

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Marketable securities (Note 1)	General ledger account	Counterparty (Note 2)	Relationship (Note 2)	Balance as at January 1, 2019		Addition (Note 3)		Disposal (Note 3)				Balance as at December 31, 2019	
					Unit	Amount	Unit	Amount	Unit	Selling price	Book value	Gain (loss) on disposal	Unit	Amount
AXIOMTEK CO., LTD.	Taishin DaZhong Investment Trust	Financial assets mandatorily measured at fair value through profit or loss-current	-	-	-	-	33,963,938	483,000	33,963,938	483,206	483,000	206	AXIOMTEK CO., LTD.	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.
Note 2: Fill in the columns the counterparty and relationship if securities are accounted for under the equity method; otherwise leave the columns blank.
Note 3: Aggregate purchases and sales amounts should be calculated separately at their market values to verify whether they individually reach $300 million or 20% of paid-in capital or more.
Note 4: Paid-in capital referred to herein is the paid-in capital of parent company. In the case that shares were issued with no par value or a par value other than $10 per share, the 20 % of paid-in capital shall be replaced by 10% of equity attributable to owners of the parent in the calculation.
Note 5: The amount of the change table does not include the evaluation profit and loss.

AXIOMTEK CO., LTD.

Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more

For the year ended December 31, 2019

Table 4

Expressed in thousands of NTD

(Except as otherwise indicated)

Purchaser/seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions (Note 1)		Notes/accounts receivable (payable)		Footnote (Note 2)
			Purchase (sale)	Amount	Percentage of total purchase (sale)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
AXIOMTEK CO., LTD.	AXUS	The Company's subsidiaries are stated as follows:	Sale	$ 1,442,071	42.32%	Monthly 45 ~ 90 days	–	–	$ 283,446	52.48%	
AXIOMTEK CO., LTD.	AXGM	The Company's subsidiaries are stated as follows:	Sale	410,369	12.04%	Monthly 45 days	–	–	12,513	2.32%	
AXIOMTEK CO., LTD.	Axiomtek Shenzhen	The Company's subsidiaries are stated as follows:	Sale	117,016	3.43%	Monthly 75 days	–	–	40,980	7.59%	

Note 1: If terms of related party transactions are different from third party transactions, explain the differences and reasons in the ‘Unit price’ and ‘Credit term’ columns.
Note 2: In case related-party transaction terms involve advance receipts (prepayments) transactions, explain in the footnote the reasons, contractual provisions, related amounts, and differences in types of transactions compared to third-party transactions.
Note 3: Paid-in capital referred to herein is the paid-in capital of parent company.

AXIOMTEK CO., LTD.

Receivables from related parties reaching $100 million or 20% of paid-in capital or more

For the year ended December 31, 2019

Table 5

Expressed in thousands of NTD

(Except as otherwise indicated)

Creditor	Counterparty	Relationship	Balance as at December 31, 2019 (Note 1)	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
AXIOMTEK CO., LTD.	AXUS	The Company's grandson	$283,446	4.19	-	-	$174,243	-

Note 1: Fill in separately the balances of accounts receivable–related parties, notes receivable–related parties, other receivables–related parties.
Note 2: Paid-in capital referred to herein is the paid-in capital of parent company.

AXIOMTEK CO., LTD.

Significant inter-company transactions during the reporting period

For the year ended December 31, 2019

Table 6

Expressed in thousands of NTD

(Except as otherwise indicated)

No. (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
0	AXIOMTEK CO., LTD.	AXGM	1	Sales revenue	$410,369	same as that applicable to the general customer Receivables collection as per for the average customer, 45 days	8.66%
0	AXIOMTEK CO., LTD.	AXUS	1	Sales revenue	1,442,071	same as that applicable to the general customer Receivables collection as per for the average customer, 45 - 90 days	30.43%
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	1	Sales revenue	117,016	same as that applicable to the general customer Receivables collection for the general customer 75 days; 45 - 75 days with slight delay	2.47%
0	AXIOMTEK CO., LTD.	AXIT	1	Sales revenue	28,622	same as that applicable to the general customer Receivables collection as per for the average customer, 45 days	0.60%
0	AXIOMTEK CO., LTD.	AXUS	1	Accounts receivable	283,446		6.88%
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	1	Accounts receivable	40,980		1.00%
0	AXIOMTEK CO., LTD.	AXGM	1	Accounts receivable	12,513		0.30%
0	AXIOMTEK CO., LTD.	Axiomtek Shenzhen	1	Other receivables	17,220		0.42%
0	AXIOMTEK CO., LTD	AXUS	1	Other receivables	30,214		0.73%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:
(1) Parent company is '0'.
(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):
(1) Parent company to subsidiary.
(2) Subsidiary to parent company.
(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: No other transactions of the same type are available for comparison, and the terms of the transaction are handled in accordance with the terms of the agreement between the parties.

Note 5: The disclosure standard is those with a transaction amount of $10 million or more.

AXIOMTEK CO., LTD.

Information on investees

For the year ended December 31, 2019

Table 7

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee (Notes 1, 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019 (Note 2(2))	Investment income (loss) recognized by the Company for the year ended December 31, 2019 (Note 2(3))	Remark
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership	Book value			
AXIOMTEK CO., LTD.	AXUS	U.S.A.	Industrial computer and Embedded Board manufacturing , trading, post-sales service	$208,240	$208,240	23,418	100.00	$465,060	$55,671	$55,671	
〃	AXGM	Germany	Industrial computer and Embedded Board manufacturing , trading, post-sales service	19,941	19,941	(Note 3)	100.00	209,511	25,965	25,965	
〃	AXBVI	British Virgin Islands	Holding company	156,650	122,899	5,000	100.00	83,482	2,192	2,204	
〃	AXUK	United Kingdom	Industrial computer and Embedded Board manufacturing , trading, post-sales service	8,615	8,615	180,000	100.00	3,739	(3,473)	(3,473)	
〃	AXJP	Japan	Industrial computer and Embedded Board manufacturing , trading, post-sales service	8,235	8,235	600	100.00	7,832	905	929	
	AXIT	Italy	Industrial computer and Embedded Board manufacturing , trading, post-sales service	56,068	-	(Note 3)	100.00	49,635	(2,303)	(3,894)	
〃	UNI	Taiwan	Automation equipment system set-up and development	29,000	29,000	1,450,000	26.70	27,570	(5,423)	(1,427)	

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

(1) The columns of 'Investee', 'Location', 'Main business activities', Initial investment amount' and 'Shares held as at December 31, 2019' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.

(2) The 'Net profit (loss) of the investee for the year ended December 31, 2019' column should fill in amount of net profit (loss) of the investee for this period.

(3) The 'Investment income (loss) recognized by the Company for the year ended December 31, 2019' column should fill in the Company (public company) recognized investment income (loss) of its direct subsidiary and recognized investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognized investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognized by regulations.

Note 3: Department Ltd.

AXIOMTEK CO., LTD.

Information on investments in Mainland China

For the year ended December 31, 2019

Table 8

Expressed in thousands of NTD and foreign currencies

(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognized by the Company for the year ended December 31, 2019 （Note 2）	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
Axiomtek Shenzhen	Industrial computer and Embedded Board manufacturing , trading, post-sales service	NT$126,456 (USD4,218)	Note1(2)	NT$93,658 (USD3,124)	NT$93,658 (USD3,124)	$-	NT$126,456 (USD4,218)	$2,253	100.00	$2,253	$86,833	$-	

Note 1: Investment methods are classified into the following three categories:

(1) Investment in Mainland China companies by remittance through a third region.

(2) Investment in Mainland China companies through a company invested and established in a third region.

(3) Investment in Mainland China companies through an existing company established in a third region.

Note 2: The investment income is calculated based on the financial statements of the company that have not been audited by the accountant during the same period.

Note 3: In pursuance of Shen-Zi Letter No.09704604680 from the Ministry of Economic Affairs dated August 29, 2008. The amended "Regulations for examination of investments and technical cooperation in Mainland Area" sets the limitation for investments in Mainland China to be higher of net book value or 60% of consolidated net book value.

Note 4: The amount listed in this table is converted into NTD according to the exchange rate of US$1=29.98 on December 31, 2019.

Note 5: In the preparation of the consolidated financial report, the relevant transactions have been fully written off.

Expressed in thousands of NTD and foreign currencies

Company Name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Axiomtek Shenzhen	$126,456 USD4,218	USD4,223	$1,558,439