Stock Code:4979

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018

Address: No. 6, Hejiang Road, Zhongli, Taoyuan
Telephone: (03)452-5188

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

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Representation Letter

The entities that are required to be included in the combined financial statements of LuxNet Corporation as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, LuxNet Corporation and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: LuxNet Corporation
Chairman: Duen-Chian Cheng
Date: March 19, 2020

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Independent Auditors' Report

To the Board of Directors of LuxNet Corporation:

Opinion

We have audited the consolidated financial statements of LuxNet Corporation and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standard Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit of the Consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Rule No. 1090360805 issued by the Financial Supervisory Commission, and the auditing standards generally accepted in the Republic of China. Furthermore, we conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2018 in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants, and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

In our professional judgments, the key audit matters to be communicated in the independent auditors' report are listed below:

1. Evaluation of inventories

   Please refer to note 4(h) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(c) for details on inventories.

Description of key audit matter:

The Group' s inventories are measured at the lower of cost and net realizable value. Since economic environment changes rapidly, new products and techniques may have an influence on market demands, which could result in the cost of inventories to be higher than the net realizable value. Therefore, evaluation of inventories is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the policies of evaluating the inventories and assessing whether existing inventory policies are applied; understanding the difference in allowance provided on inventory valuation between estimated amounts and real amounts; understanding the sales price which the management adopted, and sampling the inventories sold in the subsequent period to assess whether the allowance for inventories are reasonable.

2. Impairment assessment of non-financial assets

Please refer to note 4(m) for accounting policy, note 5 for assumptions and estimation uncertainty, and note 6(f) for details on non-financial assets.

Description of key audit matter:

The Group is involved in a high capital expenditure industry, wherein, purchasing a certain volume of facilities is required. In this period, the price of products constantly drops due to decline in market demands. Therefore, the assessment of impairment for non-financial assets is important. The assessment for impairment included identifying the Cash Generating Unit (CGU), deciding the model for evaluating, establishing significant assumption, and calculating the recoverable amount; all of which depend on the management' s subjective judgment. Therefore, impairment assessment on non-financial assets is one of the key audit matters for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: evaluating the CGU, and external and internal impairment indications identified by the management, and ensuring all assets which needed annual impairment test are covered in the assessment made by the management; acquiring the valuation report from external experts engaged by the management; and understanding whether any significant matters occured after the reporting date that may have an impact on the impairment test.

Other Matter

LuxNet Corporation has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

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

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Mei-Pin Wu and Chi-Lung Yu.

KPMG

Taipei, Taiwan (Republic of China)
March 19, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 544,505	24	361,682	16
1170	Notes and account receivable, net (note 6(b))	172,040	7	232,035	10
130X	Inventories (note 6(c))	309,750	13	330,012	14
1410	Prepaid expenses	4,333	-	3,616	-
1470	Other current assets	17,534	1	24,562	1
		1,048,162	45	951,907	41
	Non-current assets:				
1550	Investments accounted for using equity method, net (note 6(d))	78,119	3	40,374	2
1600	Property, plant and equipment (notes 6(f) and 8)	1,179,633	51	1,271,009	55
1780	Intangible assets	1,279	-	3,644	-
1900	Other non-current assets (note 8)	27,942	1	50,655	2
		1,286,973	55	1,365,682	59
	Total assets	$ 2,335,135	100	2,317,589	100

	Liabilities and Equity	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current liabilities:				
2100	Short-term borrowings (note 6(h))	$ 130,000	6	200,000	9
2130	Current contract liabilities (note 6(r))	103	-	49,579	2
2170	Notes and accounts payable	184,923	8	167,439	7
2200	Accrued expenses and other payables	100,025	4	72,249	3
2313	Unearned revenue (note 6(e))	-	-	40,631	2
2321	Bonds payable, current portion (note 6(j))	292,197	13	2,600	-
2322	Long-term borrowings, current portion (notes 6(i) and 8)	320,000	14	31,395	2
2300	Other current liabilities (notes 6(g) & (j))	5,922	-	3,995	-
		1,033,170	45	567,888	25
	Non-Current liabilities:				
2530	Bonds payable (note 6(j))	-	-	286,328	12
2540	Long-term borrowings (notes 6(i) and 8)	-	-	320,000	14
2600	Other non-current liabilities (notes 6(j) & (m))	1,047	-	6,312	-
		1,047	-	612,640	26
	Total liabilities	1,034,217	45	1,180,528	51
	Equity attributable to owners of parent:				
3100	Ordinary shares (note 6(o))	1,202,263	51	1,028,973	44
3200	Capital surplus (notes 6(d), (j) & (o))	350,154	15	805,912	35
3350	Accumulated deficit (note 6(o))	(206,428)	(9)	(692,355)	(30)
3400	Other equity interest (note 6(o))	(45,071)	(2)	(5,469)	-
	Total equity	1,300,918	55	1,137,061	49
	Total liabilities and equity	$ 2,335,135	100	2,317,589	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018	
		Amount	%	Amount	%
4000	**Operating revenue (notes 6(r) and 7)**	$ 1,190,446	100	1,525,075	100
5000	**Operating costs (notes 6(c), (k), (l), (m) & (p), 7 and 12)**	1,152,708	97	1,971,962	129
	Gross profit (loss)	37,738	3	(446,887)	(29)
	Operating expenses (notes 6(b), (k), (l), (m) & (p) and 12):				
6100	Selling expenses	17,983	2	24,297	1
6200	Administrative expenses	124,069	10	131,129	9
6300	Research and development expenses	121,700	10	106,500	7
6450	Expected credit gain	(1,466)	-	(15,147)	(1)
		262,286	22	246,779	16
	Net operating loss	(224,548)	(19)	(693,666)	(45)
	Non-operating income and expenses:				
7020	Other gains and losses, net (notes 6(e), (g), (j), (t) & (u))	47,000	4	23,033	2
7050	Finance costs (note 6(j))	(14,336)	(1)	(13,869)	(1)
7055	Expected credit gain (note 7)	4,942	-	-	-
7070	Share of loss of associates accounted for using equity method (note 6(d))	(21,307)	(1)	(10,732)	(1)
7100	Interest revenue	559	-	634	-
		16,858	2	(934)	-
7900	**Loss before income tax**	(207,690)	(17)	(694,600)	(45)
7950	Less: income tax expenses (note 6(n))	-	-	417	-
	Loss	(207,690)	(17)	(695,017)	(45)
8300	**Other comprehensive income (loss):**				
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**				
8311	Gains (losses) on remeasurements of defined benefit plans (note 6(m))	1,262	-	(290)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	1,262	-	(290)	-
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation of foreign operation's financial statements	(3,270)	-	(693)	-
8399	Income tax expense related to items that may be reclassified subsequently to profit or loss (note 6(n))	-	-	(21)	-
	Components of other comprehensive income that will be reclassified to profit or loss	(3,270)	-	(714)	-
8300	**Other comprehensive income (loss), net**	(2,008)	-	(1,004)	-
8500	**Comprehensive loss**	$ (209,698)	(17)	(696,021)	(45)
	Earnings (losses) per share (note 6(q))				
9750	**Basic earnings (losses) per share (NT dollars)**	$	(2.02)		(6.95)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings			Total other equity interest			
	Ordinary shares	Capital surplus	Legal reserve	Accumulated deficit	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unearned employee compensation	Total equity
Balance at January 1, 2018 after adjustments	$ 909,716	801,515	120,889	(338,426)	(217,537)	(1,585)	(2,951)	(2,408)	1,486,750
Loss for the year ended December 31, 2018	-	-	-	(695,017)	(695,017)	-	-	-	(695,017)
Other comprehensive income for the year ended December 31, 2018	-	-	-	(290)	(290)	(714)	-	-	(1,004)
Total comprehensive income for the year ended December 31, 2018	-	-	-	(695,307)	(695,307)	(714)	-	-	(696,021)
Legal reserve used to offset accumulated deficits	-	-	(120,889)	120,889	-	-	-	-	-
Capital surplus used to offset accumulated deficits	-	(220,489)	-	220,489	220,489	-	-	-	-
Issuance of ordinary shares	119,500	211,500	-	-	-	-	-	-	331,000
Issuance of convertible bonds	-	14,183	-	-	-	-	-	-	14,183
Conversion of convertible bonds	267	493	-	-	-	-	-	-	760
Amortization of restricted stock	-	-	-	-	-	-	-	1,409	1,409
Retirement of restricted stock	(510)	(1,290)	-	-	-	-	-	780	(1,020)
Balance at December 31, 2018	1,028,973	805,912	-	(692,355)	(692,355)	(2,299)	(2,951)	(219)	1,137,061
Loss for the year ended December 31, 2019	-	-	-	(207,690)	(207,690)	-	-	-	(207,690)
Other comprehensive income for the year ended December 31, 2019	-	-	-	1,262	1,262	(3,270)	-	-	(2,008)
Total comprehensive income for the year ended December 31, 2019	-	-	-	(206,428)	(206,428)	(3,270)	-	-	(209,698)
Capital surplus used to offset accumulated deficits	-	(692,355)	-	692,355	692,355	-	-	-	-
Issuance of ordinary shares	147,000	152,733	-	-	-	-	-	-	299,733
Issuance of restricted stock	26,460	26,857	-	-	-	-	-	(53,317)	-
Amortization of restricted stock	-	-	-	-	-	-	-	11,840	11,840
Retirement of restricted stock	(170)	(5,315)	-	-	-	-	-	5,145	(340)
Changes in ownership interests of investments accounted for using equity method	-	62,322	-	-	-	-	-	-	62,322
Balance at December 31, 2019	$ 1,202,263	350,154	-	(206,428)	(206,428)	(5,569)	(2,951)	(36,551)	1,300,918

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

LUXNET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		2019	2018
Cash flows from (used in) operating activities:			
Loss before tax	$	(207,690)	(694,600)
Adjustments:			
Adjustments to reconcile profit (loss):			
Depreciation and amortization expense		189,435	208,669
Expected credit gain		(6,408)	(15,147)
Losses (gains) on inventory valuation and obsolete inventories		(110,490)	229,415
Losses (gains) on financial liabilities at fair value through profit or loss		(2,005)	1,376
Impairment loss		-	16,941
Interest expense		14,336	13,869
Interest revenue		(559)	(634)
Compensation cost of share-based payments		11,840	1,409
Share of loss of associates accounted for using equity method		21,307	10,732
Losses on disposal of property, plant and equipment		530	16,680
Losses on disposal of inventories		124,851	130,786
Gain on disposal of investments accounted for using equity method		(40,631)	(40,631)
Total adjustments to reconcile profit (loss)		202,206	573,465
Changes in operating assets and liabilities:			
Notes and accounts receivable		61,461	163,415
Inventories		5,901	55,349
Prepaid and other current assets		(8,084)	5,484
Total changes in operating assets		59,278	224,248
Notes and accounts payable		17,484	(108,932)
Contract liabilities		(49,476)	49,579
Accrued expenses and other payables		19,010	(8,894)
Other operating liabilities		(71)	(616)
Total changes in operating liabilities		(13,053)	(68,863)
Total changes in operating assets and liabilities		46,225	155,385
Total adjustments		248,431	728,850
Cash inflow generated from operations		40,741	34,250
Interest received		559	635
Interest paid		(8,467)	(9,695)
Tax refund received		19,337	-
Net cash flows from operating activities		52,170	25,190
Cash flows from (used in) investing activities:			
Acquisition of property, plant and equipment		(76,171)	(44,541)
Proceeds from disposal of property, plant and equipment		3,737	25,323
Net cash flows from loss control of subsidiary		-	(1,758)
Increase in other non-current assets		(4,617)	(28,154)
Increase in prepayments for equipment		-	(7,615)
Net cash flows used in investing activities		(77,051)	(56,745)
Cash flows from (used in) financing activities:			
Decrease in short-term borrowings		(70,000)	(398,687)
Redemption of bonds		(2,600)	-
Decrease in long-term borrowings		(19,089)	(138,605)
Proceeds from issuance of ordinary shares		299,733	331,000
Proceeds from issuance of convertible bonds		-	300,000
Other		(340)	(1,020)
Net cash flows from financing activities		207,704	92,688
Effect of exchange rate changes on cash and cash equivalents		-	(1,076)
Net increase in cash and cash equivalents		182,823	60,057
Cash and cash equivalents at beginning of period		361,682	301,625
Cash and cash equivalents at end of period	$	544,505	361,682

See accompanying notes to consolidated financial statements.

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

(1) Company history

LuxNet Corporation ("the Company") was incorporated on November 15, 2001, and registered under the Ministry of Economic Affairs, ROC. The address of the Company's registered office is No. 6, Hejiang Road, Zhongli, Taoyuan.

The major business activities of the Company and subsidiaries (together referred to as "the Group") were the manufacturing, processing and sale of electronic components and active components for optical communication and the retail sale of electronic materials. Please refer to note 14 for further information.

The Company's common shares were listed on the Taipei Exchange ("TPEx") on December 12, 2011.

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

These consolidated financial statements were authorized for issue by the board of directors on March 19, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the Financial Supervisory Commission, R.O.C. ("the FSC") and are effective for annual periods beginning on or after January 1, 2019. (In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation") :

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	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
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

The Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements.

(Continued)

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the above IFRS would not have any material impact on its consolidated financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (" the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed by the FSC ("the IFRSs endorsed by the FSC").

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated financial statements have been prepared on a historical cost basis:

1) Financial instruments at fair value through profit or loss (including derivative financial instruments) are measured at fair value;

2) Fair value through other comprehensive income are measured at fair value;

3) The net defined benefit liabilities (or assets) are measured at fair value of the plan assets, less the present value of the defined benefit obligation, as explained in (note 4(o)).

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. All financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Profit or loss applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of its subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change and any consideration received or paid are adjusted to equity attributable to stockholders of the Company.

LUXNET CORPORATION AND SUBSIDIARIES
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(ii) Loss control of subsidiaries

When the Group loses control of a subsidiary, it shall derecognize assets (including goodwill), liabilities and non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost; and shall remeasure the investment retained in the former subsidiary at its fair value at the date when control is lost. The gain or loss arising from derecognition is the difference between: (1) the total amounts of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost; and (2) the total amounts of the assets (including goodwill), liabilities and non-controlling interests of the subsidiary at their carrying amounts at the date when control is lost.

If there is one or more of the following indicators, the multiple arrangements should be accounted for as a single transaction and gains are recognized in proportion to completion of transaction:

1) The multiple arrangements are entered into at the same time or in contemplation of each other.

2) The multiple arrangements form a single transaction designed to achieve an overall commercial effect.

3) The occurrence of one arrangement is dependent on the occurrence of at least one other arrangement.

4) One arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

(iii) List of subsidiaries in the consolidated financial statements

The details of the subsidiaries included in the consolidated financial statements are as follows:

			Percentage of shareholding	
Name of investor	**Name of subsidiary**	**Principal activities**	**December 31, 2019**	**December 31, 2018**
The Company	Toplight Corporation (Toplight)	Holding company	100 %	100 %
Toplight	Toptrans Corporation Limited (Toptrans)	Holding company	100 %	100 %

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

1) an investment in equity securities designated as at fair value through other comprehensive income;

2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

3) qualifying cash flow hedges to the extent that the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into New Taiwan dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into New Taiwan dollars at the average rate. Exchange differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence, or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to be realized in the foreseeable future. Exchange differences arising thereon, form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the exchange differences on translation of foreign financial statement in equity.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(i) It expects to realize the asset or intends to sell or consume it in its normal operating cycle;

(ii) It holds the asset primarily for the purpose of trading;

(iii) It expects to realize the asset within twelve months after the reporting period; or

(iv) The asset is cash or a cash equivalent, unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period, or there are other restrictions.

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

(i) It expects to settle the liability in its normal operating cycle;

(ii) It holds the liability primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting period; or

(iv) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and will mature within a short period so that interest rate fluctuations have little effect on their values. Time deposits meet the aforementioned definition and are used for the purpose of meeting short-term commitments are included in cash equivalents.

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value, plus, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

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

On initial recognition, a financial asset is classified as measured at: amortized cost and fair value through other comprehensive income (FVOCI) – equity investment. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

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

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment' s fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Impairment of financial assets

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

(Continued)

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

- Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

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

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 4 months past due.

The Group considers a financial asset to be in default when the financial asset is more than 12 months past due or the borrower is unlikely to pay its credit obligations to the Group in full.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 12 months past due;

- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

4) Derecognition of financial assets

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

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

4) Financial liabilities

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

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

6) Offsetting of financial assets and liabilities

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

(Continued)

(iii) Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Investment in associates

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

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of those associates, after adjustments to align their accounting policies with those of the Group, from the date on which significant influence commences until the date on which significant influence ceases.

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses equals or exceeds its interest in an associate, the recognition of further losses is discontinued except to the extent that the Group has a legal or constructive obligation or has made payments on behalf of the associate.

(Continued)

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When the Group subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment will differ from the amount of the Group's proportionate interest in the net assets of the associate. The Group records such a difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. The aforesaid adjustment should first be adjusted under capital surplus. If the capital surplus resulting from changes in ownership interest is not sufficient, the remaining difference is debited to retained earnings. If the Group's ownership interest is reduced due to the additional subscription to the shares of the associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate will be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

(j) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives, for the current and comparative years, of significant items of property, plant and equipment are as follows:

1) Buildings: 10~50 years

2) Machinery: 3 ~10 years

3) Leasehold improvements: 10 years

4) Other equipment: 3 ~ 5 years

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

(k) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

3) the customer has the right to direct the use of the asset throughout the period of use only if either:

- the customer has the right to direct how, and for what purpose, the asset is used throughout the period of use; or

- the relevant decisions about how, and for what purpose, the asset is used are predetermined and:

  – the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or

  – the customer designed the asset in a way that predetermines how, and for what purpose, it will be used throughout the period of use.

(ii) As a leasee

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of factory facilities, vehicles and staff dormitories that have a short-term leases and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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(l) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete the development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

1) Patents 3 years

2) Computer software 3~5 years

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

(m) Impairment of non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

(Continued)

LUXNET CORPORATION AND SUBSIDIARIES
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The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is accounted for as an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. An impairment loss recognized in prior periods for an individual asset or a cash-generating unit shall be reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount but should not exceed the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(n) Revenue recognition

(i) Revenue from contracts with customers

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

1) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's 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 customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

2) Financing components

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

(Continued)

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability (asset), which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(Continued)

(p) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between the expected and the actual outcomes.

The grant-date of the Group is the record date of capital injection approved in the board meeting.

(q) Income taxes

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

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

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

(i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;

(ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and its probable that they will not reverse in the foreseeable future; and

(iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reserve, using tax rates enacted or substantively enacted at the reporting date.

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

(i) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

(ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

1) the same taxable entity; or

2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

(r) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary stockholders of the Company. The basic earnings per share are calculated as the profit attributable to the ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding. The diluted earnings per share are calculated as the profit attributable to ordinary stockholders of the Company divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise employee restricted stock and convertible bonds.

(s) Operating segments

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

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

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

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

(Continued)

There are no critical judgments made in applying accounting policies that have significant effect on amounts recognized in the consolidated financial statements.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is as follows:

(a) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Group estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Please refer to note 6(c) for further description of the valuation of inventories.

(b) Impairment of property, plant and equipment

In the process of evaluating the potential impairment of tangible assets, the Group makes subjective judgments on the recoverable amount of cash generating unit based on the opinion of external experts. Any changes in these estimates caused by the changes in economic conditions or model for evaluating could result in significant impairment charges or reversal in future years.

The accounting policies and disclosures of the Group include measuring the financial and nonfinancial assets and liabilities at fair value. The Group has established an internal control frame work with respect to the measurement of fair value, which includes organizing the Company's financial instrument valuation group (the valuation group) to review all material measurment by using the fair value (such as level 3 fair value) and to submit the report to the Chief Financial Officer (CFO). The valuation group regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used to measure the fair value, then the valuation group shall assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRSs, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For any transfer within the fair value hierarchy, the impact of the transfer is recognized on the reporting date.

please refer to note 6 (u) for assumptions used in measuring fair value.

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(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	$ 115	100
Demand deposits	544,390	361,582
Cash and cash equivalents in consolidated statements of cash flows	$ 544,505	361,682

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

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

	December 31, 2019	December 31, 2018
Notes receivable	$ 46	99
Accounts receivable	224,130	285,538
Less: allowance for impairment	(52,136)	(53,602)
	$ 172,040	232,035

(i) The Group applies the simplified approach to provide for its ECL, the use of lifetime ECL provision for all notes and accounts receivables. To measure the ECL, notes and accounts receivable have been grouped based on shared credit risk characteristics and customer's ability to pay all the amounts due based on the terms of the contract as well as incorporated forward looking information. The ECL allowance provision analysis was as follows:

	December 31, 2019		
	Carrying amounts of notes and accounts receivable	Lifetime weighted-average ECL rate	Loss allowance provision of lifetime ECL
Current	$ 154,208	0.01%~3%	36
Overdue 1 to 120 days	17,870	0.01%~3%	2
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	52,098	100.00%	52,098
	$ 224,176		52,136

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	December 31, 2018		
	Carrying amounts of notes and accounts receivable	Lifetime weighted-average ECL rate	Loss allowance provision of lifetime ECL
Current	$ 229,701	0.01%~3%	25
Overdue 1 to 120 days	2,359	0.01%~3%	-
Overdue 121 to 365 days	-	30.00%	-
More than 365 days past due	53,577	100.00%	53,577
	$ 285,637		53,602

(ii) The movement in the allowance for notes and accounts receivable was as follows:

	2019	2018
Balance on January 1, 2019 and 2018	$ 53,602	68,749
Impairment losses reversed	(1,466)	(15,147)
Balance on December 31, 2019 and 2018	$ 52,136	53,602

(iii) The Group did not provide any of the aforementioned financial assets as collateral.

(c) Inventories

	December 31, 2019	December 31, 2018
Raw materials	$ 86,094	95,934
Work in process	80,073	74,441
Finished goods	143,583	159,637
	$ 309,750	330,012

For the years ended December 31, 2019 and 2018, the Group recognized the following items as cost of goods sold:

	2019	2018
Losses (gains) on inventory valuation and obsolete inventories	$ (110,490)	229,415
Losses on disposal of inventories	124,851	130,786
Gains on sale of scrap	(5,715)	(5,890)
Unallocated manufacturing overhead resulting from the actual production being lower than the normal capacity	163,237	53,665
	$ 171,883	407,976

As of December 31, 2019 and 2018, the Group did not provide any of the aforementioned inventory as collateral.

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(d) Investments accounted for using equity method

Investments in associated companies accounted for using the equity method at the reporting date were as follows:

		December 31, 2019	December 31, 2018
Associates	$	78,119	40,374

The Group's share of the net income of associates was as follows:

		For the years ended December 31	
		2019	2018
Attributable to the Group:			
Loss	$	(21,307)	(10,732)
Other comprehensive income		(3,270)	(2,299)
Comprehensive income	$	(24,577)	(13,031)

(i) The Group lost control over Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou) in June 2018. While retaining significant influence on Toptrans Suzhou, the investment is accounted for using the equity method. Please refer to note 6(e).

(ii) Toptrans Suzhou had a cash capital increase of $409,891 (US$13,000) thousand in August 2019. However, the Group did not subscribe for additional shares due to its operational strategy considerations, which resulted in a decrease in the Group's ownership interest from 24.94% to 16.92%. Due to the increase of the Group's proportionate interest in the net assets of the associate, the Group recorded the amount of $62,322 thousand as an adjustment to investments accounted for using the equity method, with the corresponding amount credited to capital surplus. In addition, the Group holds two of the six seats of Toptrans Suzhou's board; therefore, the Group still retains significant influence over Toptrans Suzhou. The above investment was therefore accounted for using the equity method.

(e) Loss control of subsidiaries

Toptrans Suzhou had a cash capital increase of $244,190 (US $8,030) thousand in June 2018. However, the Group did not subscribe for additional shares due to operational strategy considerations, which resulted in a decrease in the Group's ownership interest from 100% to 24.94% of Toptrans Suzhou, and lost the control but retained significant influence on Toptrans Suzhou, the investment was therefore accounted for using the equity method. As the group is expected to continue providing technical supporting services of research, design and production test to Toptrans Suzhou per the agreement signed with the investors, capital increase is deemed as related to the technical supporting services, and the revaluation gain $81,262 thousand is therefore deferred and recognized as unearned revenue. The Group recognize gain from unearned revenue during services are provided. For the years ended December 31, 2019 and 2018, gains transferred from unearned revenue to gain on disposal of investment both amounted to $40,631 thousand, which were recognized as other gains and losses. Please refer to note 6(s).

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(f) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Group for the years ended December 31, 2019 and 2018 were as follows:

	Land	Buildings and construction	Machinery and equipment	Office and other equipment	Equipment under acceptance	Total
Cost or deemed cost:						
Balance on January 1, 2019	$ 247,696	361,779	1,473,656	5,239	-	2,088,370
Additions	-	-	17,558	-	67,379	84,937
Reclassifications	-	-	54,260	-	(46,644)	7,616
Disposals	-	-	(42,772)	-	-	(42,772)
Balance on December 31, 2019	$ 247,696	361,779	1,502,702	5,239	20,735	2,138,151
Balance on January 1, 2018	$ 247,696	361,779	1,533,906	30,433	-	2,173,814
Additions	-	-	43,189	990	-	44,179
Reclassifications	-	-	19,355	-	-	19,355
Disposals	-	-	(123,395)	(26,602)	-	(149,997)
Effect of movements in exchange rates	-	-	601	418	-	1,019
Balance on December 31, 2018	$ 247,696	361,779	1,473,656	5,239	-	2,088,370
Depreciation:						
Balance on January 1, 2019	$ -	73,813	740,901	2,647	-	817,361
Depreciation	-	13,540	165,502	620	-	179,662
Disposals	-	-	(38,505)	-	-	(38,505)
Balance on December 31, 2019	$ -	87,353	867,898	3,267	-	958,518
Balance on January 1, 2018	$ -	59,444	648,178	23,718	-	731,340
Depreciation	-	14,369	177,750	1,151	-	193,270
Disposals	-	-	(85,427)	(22,567)	-	(107,994)
Effect of movements in exchange rates	-	-	400	345	-	745
Balance on December 31, 2018	$ -	73,813	740,901	2,647	-	817,361
Carrying amounts:						
Balance on December 31, 2019	$ 247,696	274,426	634,804	1,972	20,735	1,179,633
Balance on December 31, 2018	$ 247,696	287,966	732,755	2,592	-	1,271,009
Balance on January 1, 2018	$ 247,696	302,335	885,728	6,715	-	1,442,474

As of December 31, 2019 and 2018, property, plant and equipment of the Group had been pledged as collateral for long-term borrowings and credit lines; please refer to note 8.

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(g) Financial liabilities reported at fair value through profit or loss

	December 31, 2019	December 31, 2018
Bonds (note 6(j))	$ 89	2,094

For the years ended December 31, 2019 and 2018, the gains (losses) on valuation of financial liabilities due to change in fair value amounted to $2,005 thousand and $(1,376) thousand, respectively, which were recognized in other gains and losses for the periods. Please refer to note 6(s).

(h) Short-term borrowings

The details were as follows:

	December 31, 2019	December 31, 2018
Unsecured bank loans	$ 130,000	200,000
Unused credit lines	$ 349,980	91,918
Annual interest rates	1.35%~1.59%	1.23%~1.50%

The group did not provide any asset pledged as collateral for short term borrowings.

(i) Long-term borrowings

The details were as follows:

Creditors	Nature	Loan period	December 31, 2019	December 31, 2018
CTBC Bank	Secured loans	2018.12.14~2020.12.14	$ 150,000	150,000
CTBC Bank	Secured loans	2018.12.26~2020.12.25	170,000	170,000
Chailease Finance Co., Ltd.	Secured loans	2017.11.30~2019.11.30	-	31,395
Less: current portion			(320,000)	(31,395)
Total			$ -	320,000
Unused credit lines			$ -	-
Interest rates for the periods ended			1.25%~1.52%	1.25%~1.55%

(i) The Company signed a long-term loan contract with CTBC Bank in June 2016, with the credit line of $320,000 thousand. The contract period of the loan expires two years after its first application. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company' s semi-annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than $1,200,000 thousand; and (3) a self-owned capital ratio of not less than 45%. If the Company violates the financial covenants and made no progress in the financial ratios within the period of improvement, the bank has the right to cease or decrease the credit line, or shorten the contract period, or the principal and interest are deemed to be due. According to the contract, the Company should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow is at least $350,000 thousand.

(Continued)

The Group repaid long-term loans. due in September and December 2019 in advance in December 2018.

(ii) The Company signed a long-term loan contract with CTBC Bank in July 2018, with the credit line of $320,000 thousand. The contract period of the loan expires two years after its first application. The principal is to be repaid on the expiration date. The Company has to maintain the following financial ratios calculated based on the Company' s semi annual audited (reviewed) consolidated financial statements: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than $1,200,000 thousand; and (3) a self-owned capital ratio of not less than 45%. If the Company violates the financial covenants and made no progress in the financial ratios within the period of improvement, the bank has the right to cease or decrease the credit line, or shorten the contract period, or the principal and interest are deemed to be due. According to the contract, the Company should transfer its business transaction cash flow to the CTBC Bank account every half-year, and the cash flow is at least $350,000 thousand.

On December 28, 2018, the Company obtained the notice from CTBC Bank for changing the terms of the credit line. CTBC Bank agreed to waive the financial restrictions on the stockholders' equity of not less than $1,200,000 thousand.

The Company re-signed a long-term loan contract with CTBC Bank on July 2, 2019, to extend the original due date of credit line to June 30, 2021, the revised restrictions of financial ratios were as follows: (1) a current ratio of not less than 110%; (2) stockholders' equity of not less than $1,000,000 thousand; and (3) a self-owned capital ratio of not less than 45%.

(iii) Please refer to note 8 for further information on assets pledged as collateral.

(j) Convertible bonds payable

	December 31, 2019	December 31, 2018
Aggregate principal amount	$ 1,100,000	1,100,000
Accumulated redeemed amount	(800,000)	(797,400)
Accumulated converted amount	(800)	(800)
Unamortized discount	(7,003)	(12,872)
Ending balance of bonds payable	292,197	288,928
Less: Bonds payable – current	(292,197)	(2,600)
Ending balance of bonds payable – non-current	$ -	286,328
Embedded derivative component – the value of redemption at the option of the Company/bondholders (recorded as other current liabilities and other non-current liabilities)	$ (89)	(2,094)
Equity component (recorded as capital surplus – stock option)	$ 14,145	14,145

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	2019	2018
Embedded derivative component – revaluation loss on redemption at the option of the Company/bond holders (recorded as other gains and losses)	$ 2,005	(1,376)
Interest expense (recorded as finance cost)	$ 5,869	4,691

The first domestic unsecured convertible bonds issued by the Group were matured on December 22, 2018. The residual bonds at par value $2,600 thousand were redeemed to the holders at par value in January 2019.

The offering information on the unsecured convertible bonds was as follows:

	1st domestic unsecured convertible bonds	2nd domestic unsecured convertible bonds
Offering amount	NT$800,000 thousand	NT$300,000 thousand
Issue date	December 22, 2015	March 12, 2018
Issuance price	At par value	At par value
Face interest rate	0%	0%
Issue period	December 22, 2015, to December 22, 2018	March 12, 2018, to March 12, 2021
Redemption at the option of the Company	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at a 1.5% yield rate at any time from January 22, 2016, to November 12, 2018, if the closing price of the common shares on the TPEx on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.	The Group may redeem the bonds within 5 trading days after the bonds' recovery reference date with cash at par value at any time from June 12, 2018, to February 2, 2021, if the closing price of the common shares on the TPEx on each trading day during a period of 30 consecutive trading days exceeds 30% of the conversion price or if the amount of unconvertible bonds is less than 10% of the offering amount.
Redemption at the option of the Holder	Each Holder has the right to require the Group to redeem the Holder's bonds on December 22, 2017, at a redemption price equal to the principal amount of the bonds with a yield-to-maturity of 0.5% per annum. (note 2)	Each Holder has the right to require the Group to redeem the Holder's bonds on March 12, 2020, at a redemption price equal to the principal amount of the bonds with a yield-to-maturity of 0.5% per annum. (note 2)

(Continued)

	1st domestic unsecured convertible bonds	2nd domestic unsecured convertible bonds
Conversion period	Each Holder of the bonds has the right at any time during the period from January 22, 2016, to the maturity date of the bond, to convert their bonds.	Each Holder of the bonds has the right at any time during the period from June 12, 2018, to the maturity date of the bond, to convert their bonds.
Conversion price on December 31, 2019 (note 1)	-	NT$30

Note 1: The conversion price will be subject to adjustment in accordance with the conversion formula when the Group increases its capital or upon the occurrence of certain events involving the convertible bonds payable.

Note 2: Due to the conditions listed above, the Group reclassified its long-term bonds to current portion. The bond holders have the optional rights to require the Group to redeem the bonds.

(k) Lease liabilities

The Group leases vehicles, employees' dormitories and warehouses. The leases typically run for a period of one year. These leases are short-term or leases of low-value items. The Group has elected not to recognize its right-of-use assets and lease liabilities for these leases.

The amounts recognized in profit or loss were as follows:

	2019
Expenses relating to short-term leases and leases of low-value items	$ 2,922

The amounts recognized in the statement of cash flows for the Group was as follows:

	2019
Rental paid in operating activities	$ 2,922

(l) Operating lease

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2018
Less than one year	$ 3,624
Between two and five years	2,386
	$ 6,010

The Group leases factory facilities, vehicles, and employees' dormitories under operating leases. The leases typically run for a period of 1 to 5 years.

During the year ended December 31, 2018, an amount of $3,848 thousand was recognized as an expense in profit or loss in respect of operating leases. There were no contingent lease in any of the operating lease contracts.

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(m) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value adjustments of the plan assets of the Group were as follows:

		December 31, 2019	December 31, 2018
Present value of defined benefit obligations	$	4,920	9,322
Fair value of plan assets		3,873	5,104
Net defined benefit liability	$	1,047	4,218

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive payments based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Group contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

The Group's Bank of Taiwan labor pension reserve account balance amounted to $3,873 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of defined benefit obligations

The movements in present value of defined benefit obligations for the Group for the years ended December 31, 2019 and 2018, were as follows:

		2019	2018
Defined benefit obligation at January 1	$	9,322	9,437
Benefits paid by the plan		(1,773)	(650)
Current service costs and interest		119	143
Past service credit and gain or loss on settlement		(1,643)	-
Remeasurement of net defined liability		(1,105)	392
Defined benefit obligation at December 31	$	4,920	9,322

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3) Movements in the fair value of defined benefit plan assets

The movements in the fair value of the defined benefit plan assets for the Group for the years ended December 31, 2019 and 2018, were as follows:

		2019	2018
Fair value of plan assets at January 1	$	5,104	4,337
Contributions paid by the employer		320	600
Interest income		65	65
Remeasurement of net defined liability		157	102
Benefits paid		(1,773)	-
Fair value of plan assets at December 31	$	3,873	5,104

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Group for the years ended December 31, 2019 and 2018, were as follows:

		2019	2018
Net interest of net liabilities for defined benefit	$	54	78
Past service credit and gain or loss on settlement		(1,643)	-
Administrative expenses	$	(1,589)	78

5) Remeasurement of the net defined benefit liabilities (asset) recognized in other comprehensive income

As of December 31, 2019 and 2018, the Group' s remeasurement of the net defined benefit liabilities (asset) recognized in other comprehensive income were as follows:

		2019	2018
Accumulated amount at January 1	$	1,279	1,569
Recognized during the period		1,262	(290)
Accumulated amount at December 31	$	2,541	1,279

6) Actuarial assumptions

The following are the Group's principal actuarial assumptions:

	December 31, 2019	December 31, 2018
Discount rate	1.250 %	1.375 %
Future salary increase rate	2.00 %	3.00 %

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date was $240 thousand.

(Continued)

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The weighted-average lifetime of the defined benefit plans is 21.19 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligations as of December 31, 2019 and 2018 would have been as follows:

	Influence of defined benefit obligations	
December 31, 2019:	**Increased 0.25%**	**Decreased 0.25%**
Discount rate	(163)	167
Future salary increase rate	166	(160)

	Influence of defined benefit obligations	
December 31, 2018:	**Increased 0.25%**	**Decreased 0.25%**
Discount rate	(280)	298
Future salary increase rate	286	(273)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown above. Many assumption changes may affect each other in practice. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the balance sheets.

There was no change in the method and assumptions used in the preparation of the sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Group allocates 6% of each employee' s monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plans, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The Group recognized pension costs under the defined contribution method amounted to $16,373 thousand and $17,578 thousand for the years ended December 31, 2019 and 2018, respectively.

(n) Income taxes

(i) The amounts of income tax expenses for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Current tax expense	$ -	417

(ii) For the years ended December 31, 2019 and 2018, there was no income tax recognized in equity.

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(iii) The amounts of income tax expenses recognized in other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Exchange differences on translation of foreign operations' financial statements	$ -	21

(iv) Reconciliation of income tax and profit (loss) before tax for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Loss excluding income tax	$ (207,690)	(694,600)
Income tax using the Company's domestic tax rate	(41,538)	(164,254)
Effect of tax rates in foreign jurisdictions	-	(6,939)
Non-deductible expenses	(216)	4,602
Change in unrecognized temporary differences	38,189	166,890
Adjustment for prior year's tax expense	3,565	417
Others	-	(299)
	$ -	417

(v) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

The Group's unrecognized deferred tax assets were deductible temporary differences, listed as follows:

	December 31, 2019	December 31, 2018
Tax losses	$ 243,716	188,000
Deductible temporary differences	90,949	108,476
	$ 334,665	296,476

After evaluating the amount of its future income tax, the Group deemed its deductible items may not be realized. Therefore, they were not recognized as deferred tax assets.

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

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As of December 31, 2019, the expiry date of the tax losses not recognized as deferred tax assets by the Company is as following:

Year of loss	Expiry date	Unused tax losses	Unused tax losses carry forward
2016 (examined)	2026	$ 1,373	275
2017 (examined)	2027	487,107	97,421
2018 (filed)	2028	433,701	86,740
2019 (estimated)	2029	296,398	59,280
		$ 1,218,579	243,716

2) Recognized deferred tax assets and liabilities

The Group did not recognize any deferred tax assets or liabilities for the year ended December 31, 2019.

Changes in the amount of deferred tax assets and liabilities for the year ended December 31, 2018 were as follows:

	Loss on inventory valuation and obsolete inventories	Excess allowance for doubtful account	The carryforward of unused tax losses	Others	Total
Deferred tax assets:					
Balance on January 1, 2018	$ -	-	-	(21)	(21)
Recognized in other comprehensive income	-	-	-	21	21
Balance on December 31, 2018	$ -	-	-	-	-

(vi) The Company's income tax returns have been examined by the tax authority through the years up to 2017.

(o) Capital and other equity

As of December 31, 2019 and 2018, the Company's authorized common stock both amounted to $1,500,000 thousand. Par value of each share is $10 (dollars). The number of shares includes employee stock options for 8,000 thousand shares. The issued amounts were $1,202,263 thousand and $1,028,973 thousand, respectively.

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Reconciliation of shares outstanding for the years ended December 31, 2019 and 2018 was as follows:

(thousand shares)	2019	2018
Balance on January 1	102,898	90,972
Issuance of ordinary shares	14,700	11,950
Conversion of convertible bonds	-	27
Issuance of restricted stock (note 6(o))	2,646	-
Retirement of restricted stock (note 6(o))	(17)	(51)
Balance on December 31	120,227	102,898

(i) Common stock

Based on the resolution approved in the stockholders' meeting held on May 26, 2017, the board of directors was authorized to undertake cash offering through private placement within one year, with less than 27,000 thousand stocks to be issued. On June 2, 2017 and January 19, 2018, the board of directors resolved to issue 17,000 thousand and 1,950 thousand new common stocks amounting to $510,000 thousand and $58,500 thousand at $30 per share, with a par value of $10 per share, respectively. June 16, 2017 and January 26, 2018 were set as the date of capital increase. The relevant statutory registration procedures had been completed.

The aforementioned private placement of ordinary shares and the transfer of any subsequently obtained bonus shares would be subject to the requirements stated under section 43(8) of the Securities and Exchange Act. The Company can only apply for these shares, to be traded on the TPEx, after a three year period has elapsed from the delivery date of the private placement securities, and after applying for a public offering from the Financial Supervisory Commission.

Based on the resolution approved in the board meeting held on December 14, 2017 for the issuance of 10,000 thousand ordinary shares, with par value of $10 per share, amounting to $275,000 thousand, with March 19, 2018 set as the date of capital increase. In addition, underwriting fee of $2,500 thousand was deducted from the capital surplus in excess of par value. The relevant statutory registration procedures had been completed.

Based on the resolution approved in the board meeting held on October 2, 2019, for the issuance of 14,700 thousand ordinary shares amounting to $299,733 thousand at $20.39 per share, with par value of $10 per share, to repay the Goup's borrowings, with December 26, 2019 set as the date of capital increase. The relevant statutory registration procedures had been completed.

The second domestic unsecured convertible bonds issued by the Company were converted into 27 thousand ordinary shares ($267 thousand) due to the conversion of the holders on July 2, 2018. The relevant statutory registration procedures were completed.

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(ii) Capital surplus

The balances of capital surplus as of December 31, 2019 and 2018, were as follows:

	December 31, 2019	December 31, 2018
Additional paid-in capital	$ 215,675	753,655
Employee stock options	1,456	1,456
Conversion options of convertible bonds	14,145	14,145
Restricted employee stock options (note 6(p))	21,900	2,000
Changes in ownership interests of investments accounted for using equity method	62,322	-
Other	34,656	34,656
	$ 350,154	805,912

According to the ROC Company Act, capital surplus can only be used to offset a deficit, and only the realized surplus can be used to increase the ordinary shares or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of the total ordinary shares outstanding.

(iii) Retained earnings

According to the articles of the Company, 10 percent of its annual net income after settling all outstanding tax payables and accumulated deficit, if any, is to be set aside as legal reserve, until the accumulated legal capital reserve has equaled the total capital of the Company. Also, a special reserve should be retained or reversed under related regulations and the Company's operating demands. The remainder, if any, shall combined into an aggregate amount of undistributed earnings, which shall become the aggregate distributable earnings to be distributed by the directors' distribution proposals according to the resolution adopted at the stockholders' meeting.

The Company is at its growth stage and it considers its future cash demand and long-term financial plans. Dividends distributed each year shall range from 10 to 70 percent of undistributed earnings. To satisfy stockholders' demand for cash, when allocating the earnings for each year, the cash dividend shall not be less than 10 percent of the total dividends.

1) Legal reserve

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

(Continued)

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other stockholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other stockholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other stockholders' equity shall qualify for additional distributions.

3) Earnings distribution

Based on the resolution approved in the stockholders' meeting held on June 14, 2019, the Company would not distribute earnings because of the loss for the year ended December 31, 2018.

Based on the resolution approved in the stockholders' meeting held on June 14, 2019, the Company offset accumulated deficits by capital surplus of $692,355 thousand.

Based on the resolution approved in the stockholders' meeting held on June 29, 2018, the Company would not distribute earnings because of the loss for the year ended December 31, 2017.

Based on the resolution approved in the stockholders' meeting held on June 29, 2018, the Company offset accumulated deficits by legal reserve of $120,889 thousand and by capital surplus of $220,489 thousand.

(p) Share-based payment

(i) Based on the resolution approved in the stockholders' meeting held on June 14, 2019, the Company resolved to issue 3,000 thousand new shares of restricted stock. Only employees meeting specific conditions were granted such restricted stock. The Company has received the approval from the Securities and Futures Bureau.

(ii) Based on the resolution approved in the board of directors' meeting held on August 1, 2019, the Company resolved to issue 2,646 thousand new shares of restricted stock. The actual numbers of shares issued were same as those approved during the board meeting.

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(iii) As of December 31, 2019, the outstanding restricted stock of the Company was as follows:

	Plan 5-1	**Plan 4-2**
Grant date	August 2, 2019	June 1, 2017
Fair value on grant date (per share)	20.15	31.05
Exercise price	-	20
Granted units (thousand shares)	2,646	208
Vesting period	1~3 years (note 1)	1~2 years (note 2)

Note 1: If the employees continue to provide service to the Company, one third of the restricted stock shall be vested in year 1 after the grant date, one third of the restricted stock shall be vested in year 2 after the grant date, and the remaining one third shall be vested in year 3 after the grant date.

Note 2: If the employees continue to provide service to the Company, half of the restricted stock shall be vested in year 1 after the grant date, and the remaining half shall be vested in year 2 after the grant date.

The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares shall not be sold, pledged, transferred, gifted, or, by any other means, disposed of to third parties during the custody period except for inheritance. Holders of restricted stock are entitled to the same rights as the Company's existing common stockholders. The Company will purchase and write off all shares of an employee who fails to comply with the vesting conditions at the lower of issuance price or TPEx closing price, and the dividend distributed should be returned to the Company also.

The related information on restricted stock of the Company was as follows:

(thousand shares)	**2019**	**2018**
Outstanding at January 1	94	376
Granted during the year	2,646	-
Vested during the year	(77)	(231)
Expired during the year	(263)	(51)
Outstanding at December 31	**2,400**	**94**

Compensation cost attributable to share-based payment for the years ended December 31, 2019 and 2018 was $11,840 thousand and $1,409 thousand, respectively.

(iv) Based on the resolution approved in the board of directors' meeting held on July 19, 2018, the number of shares was reduced by 51 thousand shares due to the retirement of restricted stock, with July 23, 2018 as the date of capital reduction. The relevant statutory registration procedures were completed.

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(v) Based on the resolution approved in the board of directors' meeting held on March 19, 2019, the number of shares was reduced by 17 thousand shares due to the retirement of restricted stock, with March 22, 2019 as the date of capital reduction. The relevant statutory registration procedures were completed.

(vi) Based on the resolution approved in the board of directors' meeting held on January 10, 2020, the number of shares was reduced by 246 thousand shares due to the retirement of restricted stock, with January 10, 2020 as the date of capital reduction. The relevant statutory registration procedures were completed.

(q) Earnings (losses) per share

The calculation of basic earnings per share for the years ended December 31, 2019 and 2018, was based on the profit (loss) attributable to ordinary stockholders of the Company and the weighted-average number of common shares outstanding, calculated as follows:

		2019	2018
Loss attributable to common stockholders	$	(207,690)	(695,017)

Weighted-average number of common shares

(thousand shares)	2019	2018
Ordinary shares at January 1	102,802	90,595
Effect of issuance of ordinary shares	-	9,288
Effect of restricted stock	46	89
Effect of conversion of convertible bonds	-	13
Ordinary shares at December 31	102,848	99,985

Since the potential common shares have no dilutive effect, the Company needs only disclose the calculation on basic earnings per share for the years ended December 31, 2019 and 2018.

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

		2019	2018
Primary geographical markets			
Taiwan	$	60,162	66,718
China		418,482	943,544
America		705,047	505,932
Other		6,755	8,881
	$	1,190,446	1,525,075

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		2019	2018
Major products			
Active components for optical communication and modules	$	1,016,350	1,441,183
Chips		82,757	43,528
Other		91,339	40,364
	$	1,190,446	1,525,075

(ii) Contract balances

		December 31, 2019	December 31, 2018	January 1, 2018
Notes and accounts receivable	$	224,176	285,637	449,392
Less: allowance for impairment		(52,136)	(53,602)	(68,749)
	$	172,040	232,035	380,643
Contract liabilities	$	103	49,579	-

For details on accounts receivable and allowance for impairment, please refer to note 6(b).

The contract liabilities primarily relate to the advance consideration received from customers, for the sales contracts whose revenue is recognized when products are delivered to customers. The amount of revenue recognized for the year ended December 31, 2019, that was included in the contract liability balance at the beginning of the period was $49,576 thousand.

(s) Remuneration to employees, directors and supervisors

Based on the Company' s articles of incorporation, 5% to 15% of annual profit should be appropriated as employee remuneration. The board of directors will adopt a resolution on whether the distribution is paid in cash or stock. Qualified employees, including the employees of subsidiaries of the Company meeting certain specific requirements, are entitled to receive their remuneration specified by the board of directors. The annual profit aforementioned may also be appropriated as directors' and supervisors' remuneration through the board's resolution, wherein the amount should not exceed 5% of annual profit after offsetting prior years' deficits. Related information would be available at the Market Observation Post System website.

The Company did not estimate any remuneration to employees, and directors and supervisors due to its loss in 2019 and 2018. If there are any subsequent adjustments to the actual remuneration amounts, the adjustments will be regarded as changes in accounting estimates and will be reflected in profit or loss in the next year. Related information would be available at the Market Observation Post System website.

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(t) Non-operating income and expenses

Other gains and losses were as follows:

		2019	2018
Foreign currency exchange gains	$	4,567	17,267
Net gains (losses) on financial liabilities measured at fair value through profit or loss		2,005	(1,376)
Losses on disposal of property, plant and equipment		(530)	(16,680)
Impairment loss		-	(16,941)
Gains on disposal of investments accounted for using equity method		40,631	40,631
Other		327	132
	$	47,000	23,033

(u) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration of credit risk

Sales to individual customers constituting over 10% of total revenue for the years ended December 31, 2019 and 2018, totaled 69% and 70%, respectively. As of December 31, 2019 and 2018, 43% and 41%, respectively, of the ending balance of notes and accounts receivable were accounted for by those customers. The Group periodically evaluates these customers' financial position and the possibility of recovery of related accounts receivable to lower credit risk.

3) Credit risk of account receivables

For details on credit risk exposure of notes and account receivables, please refer to note 6(b).

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(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including interest but excluding the effect of any netting agreement:

		Carrying amount	Contractual cash flows	Within 1 year	1~2 years	2~5 years
December 31, 2019						
Non-derivative financial liabilities:						
Short-term borrowings	$	130,000	130,228	130,228	-	-
Convertible bonds		292,197	299,200	299,200	-	-
Notes and accounts payable		184,923	184,923	184,923	-	-
Accrued expenses and other payables		47,990	47,990	47,990	-	-
Long-term borrowings		320,000	324,648	324,648	-	-
	$	975,110	986,989	986,989	-	-
December 31, 2018						
Non-derivative financial liabilities:						
Short-term borrowings	$	200,000	200,365	200,365	-	-
Convertible bonds		288,928	301,800	2,600	-	299,200
Notes and accounts payable		167,439	167,439	167,439	-	-
Accrued expenses and other payables		16,155	16,155	16,155	-	-
Long-term borrowings		351,395	362,066	32,270	329,796	-
	$	1,023,917	1,047,825	418,829	329,796	299,200

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

		December 31, 2019			December 31, 2018		
		Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets							
Monetary items							
USD:NTD	$	7,369	29.980	220,923	16,961	30.795	520,957
Financial liabilities							
Monetary items							
USD:NTD		4,729	29.980	141,775	3,038	30.715	93,312

(Continued)

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable and accounts payable that are denominated in foreign currency.

A strengthening (weakening) of 5% of the NTD against the USD as of December 31, 2019 and 2018, would have increased or decreased the net loss before tax by $3,957 thousand and $21,382 thousand, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain or loss on monetary items

The information on the amount of the Group's foreign exchange gain or loss on monetary items (including realized and unrealized) translated to the functional currency, and on the exchange rate translated to the functional currency of the parent company (the presentation currency), NTD, was as follows:

	2019		2018	
	Foreign exchange gain or loss	**Average exchange rate**	**Foreign exchange gain or loss**	**Average exchange rate**
NTD	$ 4,567	1.000	16,740	1.000
CNY	-	4.472	527	4.560
	$ 4,567		17,267	

(iv) Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note on liquidity risk management.

The following sensitivity analysis is based on the exposure to interest rate risk of non-derivative financial instruments on the reporting date. For variable-rate liabilities, the sensitivity analysis assumes the variable-rate liabilities are outstanding for the whole year on the reporting date. An increase or decrease of 25 basis points is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rate had increased or decreased by 25 basis points, the net loss before tax would have increased or decreased by the amount of $236 thousand and $396 thousand for the years ended December 31, 2019 and 2018 respectively, which would have mainly resulted from bank savings and borrowings with variable interest rates.

Financial instruments with fixed interest rates held or issued by the Group are valued at amortized cost. Since the change in market interest rate at the end of each reporting period had no impact on profit and loss, disclosure of the sensitivity to changes in fair value is not necessary.

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(v) Fair value

1) Kinds of financial instruments and fair value

The fair value of financial assets and liabilities at fair value through profit or loss is measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required:

	December 31, 2019				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 544,505				
Notes and accounts receivable (including related parties)	172,040				
Refundable deposits	21,985				
Total	$ 738,530				
Financial liabilities at amortized cost					
Long-term and short-term borrowings	$ 450,000				
Notes and accounts payable	184,923				
Convertible bonds	292,197	-	292,083	-	292,083
Other financial liabilities	100,025				
Total	$ 1,027,145				
Financial liabilities at fair value through profit or loss–current	$ 89	-	-	89	89

	December 31, 2018				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost					
Cash and cash equivalents	$ 361,682				
Notes and accounts receivable (including related parties)	232,035				
Refundable deposits	36,304				
Total	$ 630,021				

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	December 31, 2018				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial liabilities at amortized cost					
Long-term and short-term borrowings	$ 551,395				
Notes and accounts payable	167,439				
Convertible bonds	288,928	-	265,537	-	265,537
Other financial liabilities	72,249				
Total	$ 1,080,011				
Financial liabilities at fair value through profit or loss–non-current	$ 2,094	-	-	2,094	2,094

2) Valuation techniques to measure fair value of financial instruments not measured at fair value

Financial instruments of the Group not measured at fair value are financial assets and liabilities valued at amortized cost. Measurement of fair value of these financial instruments is based on recent transaction prices. When market price are unavailable, valuation is based on discounted cash flow.

3) Fair value valuation technique of financial instruments measured at fair value

Valuation of derivative financial instruments of the Group is based on a valuation model widely used by market participants, such as the discounted cash flow method and the Black-Scholes Option Pricing Model.

4) Changes in Level 3

	Convertible bonds
Balance on January 1, 2019	$ (2,094)
Recognized in profit or loss	2,005
Balance on December 31, 2019	$ (89)
Balance on January 1, 2018	-
Recognized in profit or loss	$ (1,376)
Acquisition / disposal / pay-off	(718)
Balance on December 31, 2018	$ (2,094)

The aforementioned total gains and losses were recognized in “other gains and losses”. The details of the liabilities which the Group still held as of December 31, 2019 and 2018, were as follows:

	2019	2018
Total gains and losses (recognized in “other gains and losses”)	$ 2,005	(1,376)

5) Fair value measurements using significant unobservable inputs (Level 3)

The fair value measurements of the Group which are categorized into Level 3 are redemption rights of embedded convertible bonds which use the Binomial Tree Model to decide the fair value. After evaluation, these derivative financial instruments have no significant influence on the Group's financial report. Therefore, the quantify information and sensitivity analysis related to fair value measurements using significant unobservable inputs are not disclosed.

6) In the years ended December 31, 2019 and 2018, there were no transfers between levels.

(v) Financial risk management

(i) Overview

The Group is exposed to the following risks arising from financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

This note presents information on exposure to each of the above risks and on the objectives, policies, and processes for measuring and managing risk. For detailed information, please refer to the related notes on each risk.

(ii) Structure of risk management

The board of directors is responsible for the establishment and oversight of risk management and for developing and controlling the risk management policy of the Group.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect any changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee monitors the management to ensure compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee and the board of directors are assisted in their oversight role by internal auditor. Internal auditor undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee and board of directors.

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(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, which arises principally from the Group's cash and cash equivalents; notes, accounts, and other receivables; and derivative instruments.

1) Cash and cash equivalents

The Group deposited cash in reputable and creditworthy financial institutions. The Group believes that the risk that these financial institutions may default is very low and anticipates no significant credit loss. The Group also deals with numerous financial institutions to disperse the risk, thus the Group will not suffer any significant loss if the abovementioned institutions default.

2) Notes, accounts and other receivables

The Group has established a credit policy. The Group uses external credit rating systems and previous transaction records to assess the credit quality and set the credit limits for the customer. The Group constantly supervises credit exposures and credit limits of transaction partners, and controls credit exposures through setting the credit limits.

3) Derivative instruments

The Group entered into derivative instrument contracts with reputable and creditworthy financial institutions. The Group believes that the risk that these financial institutions may default on these contracts is very low and anticipates no significant credit loss.

4) Guarantees

The Group has established a credit policy under that the Group can only provide guarantees to 100%-held subsidiaries. As of December 31, 2019 and 2018, the Group did not provide any guarantee.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group had unused bank facilities of $344,980 thousand and $91,918 thousand as of December 31, 2019 and 2018, respectively.

(Continued)

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases, and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities. These transactions are denominated in USD.

2) Interest rate risk

The Group's main assets and liabilities with a floating-interest-rate basis are deposits and borrowings. The Group believes that cash flow risk arising from interest rate fluctuation is insignificant.

(w) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence, and to sustain future development of the business. Capital consists of ordinary shares, capital surplus, and retained earnings.

The Group's debt-to-equity ratio as of December 31, 2019 and 2018, was 38% and 72%, respectively.

(x) Investing and financing activities not affecting current cash flow

The Group's investing and financing activities which did not affect the current cash flow in the years ended December 31, 2019 and 2018, were as follows:

(i) The increase in property, plant and equipment and other non-current assets from the transfer of prepayment for equipment was $7,616 thousand and $19,355 thousand, respectively. Please refer to note 6(f).

(ii) For retirement of restricted stock, please refer to note 6(p).

(iii) For conversion of convertible bonds to ordinary shares, please refer to note 6(o).

(iv) Reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flows	Non-cash changes	December 31, 2019
Short-term borrowings	$ 200,000	(70,000)	-	130,000
Long-term borrowings	351,395	(19,089)	(12,306)	320,000
Bonds payables	288,928	(2,600)	5,869	292,197
Total liabilities from financing activities	$ 840,323	(91,689)	(6,437)	742,197

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	January 1, 2018	Cash flows	Non-cash changes	December 31, 2018
Short-term borrowings	$ 620,000	(420,000)	-	200,000
Long-term borrowings	490,000	(138,605)	-	351,395
Bonds payables	2,555	300,000	(13,627)	288,928
Total liabilities from financing activities	$ 1,112,555	(258,605)	(13,627)	840,323

(7) Related-party transactions:

(a) Name and relationship with related parties

The followings are entities that have had transactions with the related party during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
Toptrans (Suzhou) Corporation Limited (Toptrans Suzhou)	An associates of the Group (Note)

Note : The Group lost control over Toptrans Suzhou in June, 2018 while retaining significant influence. Therefore, the Group transferred Toptrans Suzhou from a subsidiary to an associate.

(b) Significant transactions with related parties

(i) Sale of goods to related parties

1) The Group sells semi-finished products to Toptrans Suzhou for processing and production. The finished products are then repurchased back by the Company through triangular trade at cost-plus price and sold to the Group' s customers. The amount of semi-finished products sold in 2018 was $1,968 thousand, which was eliminated with related cost of goods sold, therefore, was no longer regarded as sales in the financial statements. Besides, there's no this transaction in 2019.

2) There were no significant differences in the selling prices between Toptrans Suzhou and other customers. The credit terms with related parties were about 150 days, which could be extended, and accounts receivable could offset with accounts payable. Whereas, the terms for other customers were 30 to 105 days, except for payments received in advanced.

(ii) Processing and production of products

The Group outsources processing and production of products to Toptrans Suzhou. The outsourcing processing fees was $2,070 thousand in 2018. There were no significant differences in the processing prices between Toptrans Suzhou and other vendors. The credit terms with related parties were about 30 days, whereas the terms with other vendors were 30 to 120 days.

The accounts payable arising from this transaction was offset with its accounts receivable and the net amount presented in financial statements as of December 31, 2018.

(Continued)

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(iii) Provide service to related parties

For the years ended December 31, 2019 and 2018, revenue from providing service to associate, Toptrans Suzhou, amounted to $5,883 thousand and $11,983 thousand, respectively. As of December 31, 2019 and 2018, the accounts receivable arising from aforementioned transactions were settled.

(iv) Loans to related parties

The loans to Toptran Suzhou was derived from the accounts receivable of selling goods to Toptran Suzhou. However, Toptran Suzhou failed to settle its debt due the difficulties its business is facing, resulting in the Group to reclassify its accounts receivable to loans.

The loans to associate Toptrans Suzhou were as follows:

	December 31, 2019	December 31, 2018
Other receivables—loans	$ 11,808	16,751
Other receivables—interest	-	190
	11,808	16,941
Less: allowance impairment	(11,808)	(16,941)
	$ -	-

For the years ended December 31, 2019 and 2018, the Group recognized expected credit gains of $4,942 thousand, and $0 thousand, respectively, as other gains and losses due to collections from the loans.

(c) Key management personnel compensation

	2019	2018
Short-term employee benefits	$ 26,410	27,625
Post-employment benefits	789	874
Termination benefits	-	-
Other long-term benefits	-	-
Share-based payments	2,347	429
	$ 29,546	28,928

Please refer to note 6(p) to the information about share-based payment.

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(8) Pledged assets:

The Group's assets pledged as collateral were as follows:

Pledged assets	Pledged to secure	Book value of pledged assets December 31, 2019	December 31, 2018
Fixed assets – land	Long-term borrowings and credit line collateral	$ 247,696	247,696
Fixed assets – buildings and construction	Long-term borrowings and credit line collateral	274,426	287,966
Fixed assets–machinery and equipment	Long-term borrowings	-	98,495
Refundable deposits	Long-term borrowings and collateral for court proceedings	21,740	35,740
		$ 543,862	669,897

(9) Commitments and contingencies:

(a) The Group's unused letters of credit for purchasing machinery and equipment were as follow:

	December 31, 2019	December 31, 2018
Unused letters of credit for purchasing machinery and equipment	$ -	8,082

(b) The amounts of guarantee notes issued as collateral for bank loans were as follows:

		December 31, 2019	December 31, 2018
Guarantee notes issued	USD	$ 5,500	7,500
Guarantee notes issued	NTD	$ 990,000	835,000

(c) Contingencies

Toptrans Suzhou had a cash capital increase in June 2018. Pursuant to the agreement with investors, the Group shall indemnify the investors in the event of unresolved or unpaid obligation arising from past transactions, or breach of non-competitive clause after the capital increase.

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events:.

The holders of second domestic unsecured convertible bonds issued by the Group may exercise redemption rights beginning March 12, 2020, please refer to note 6(j).

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(12) Other:

The following is a summary statement of current-period employee benefit, depreciation, and amortization expenses by function:

By function / By item	For the years ended December 31					
	2019			2018		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee benefit expenses						
Salaries	194,554	121,641	316,195	211,909	118,372	330,281
Labor and health insurance	22,049	9,550	31,599	23,119	9,982	33,101
Pension	10,841	3,943	14,784	11,598	6,058	17,656
Remuneration of directors	-	2,648	2,648	-	-	-
Others	13,394	6,528	19,922	15,324	12,115	27,439
Depreciation	155,119	24,543	179,662	167,699	25,571	193,270
Amortization	5,483	4,290	9,773	8,514	6,885	15,399

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the year ended December 31, 2019:

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

Number	Name of lender	Name of borrower	Account name	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Allowance for bad debt	Collateral		Individual funding loan limits	Maximum limit of fund financing
												Item	Value		
0	The Company	Toptrans Suzhou	Other receivables	16,751	18,156	11,808	2%	Required loans to other parties	-	Operating capital	11,808	-	-	(Note 1)	(Note 1)

Note 1: The amounts loaned to a company from the Company or subsidiaries shall not exceed 10% of the entity's net worth, $130,092 thousand, in the latest financial statements. The total amounts loaned to all companies shall not exceed 40% of the Company's net worth, $520,367 thousand.

(ii) Guarantees and endorsements for other parties: None.

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(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	December 31, 2019				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Share/Units (thousands)	Percentage of ownership (%)	
The Company	BANDWIDTH10, INC.	-	Financial assets measured at FVOCI–Non-current	220	-	4.43 %	-	220	4.43 %	

(iv) Individual securities acquired or disposed of with an accumulated amount exceeding the lower of $300 million or 20% of the capital stock: None.

(v) Acquisition of individual real estate with an amount exceeding the lower of $300 million or 20% of the capital stock: None.

(vi) Disposal of individual real estate with an amount exceeding the lower of $300 million or 20% of the capital stock: None.

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of $300 million or 20% of the capital stock: None.

(viii) Receivables from related parties with amounts exceeding the lower of $100 million or 20% of the capital stock: None.

(ix) Trading in derivative instruments: Please refer to note 6(g).

(x) Business relationships and significant intercompany transactions: None.

(b) Information on investees:

The following is the information on investees for the year ended December 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main and Businesses products	Original investment amount		Ending balance			Investee recognize as of December 31, 2019		Highest balance during the year		Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership (%)	Carrying value	Net income (losses)	Investment income (losses)	Shares (thousands)	Percentage of ownership	
The Company	Toplight Corporation Limited	Seychelles	Holding company	122,980	122,980	4,000	100 %	78,119	19,324	19,324	4,000	100 %	(Note)
Toplight Corporation Limited	Toptrans Corporation Limited	Hong Kong	Holding company	122,980	122,980	4,000	100 %	78,119	19,324	19,324	4,000	100 %	(Note)

Note: The long-term equity investments were eliminated in the preparation of the consolidated financial statements.

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, their main businesses and products, and other information:

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Percentage of ownership	Investment income (loss)	Book value	Accumulated remittance of earnings in current period	Highest balance during the year		Note
					Outflow	Inflow						investment	percentage of ownership	
Toptrans (Suzhou) Corporation Limited	Electronic components manufacturing	547,616 (USD 17,730 thousand)	(note)	122,980 (USD 4,000 thousand)	-	-	122,980 (USD 4,000 thousand)	16.92 %	(21,307)	78,119	-	122,980	24.94 %	(Note 1)

Note: The company indirectly invested Toptrans (Suzhou) by Toplight Corporation and Toptrans Corporations Limited.
Note1: Toptrans Suzhou had cash capital increases in August 2019 and in June 2018. However, the Group did not subscribe for additional shares, which resulted in a decrease in the Group's ownership interest from 100% to 16.92%.

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
122,980 (USD4,000 thousand)	123,743 (USD4,000 thousand)	780,551

Note : The NTD amount was measured on December 31, 2019 with the spot exchange rate of 29.980, except for the investment income (which are measured by using the average exchange rate for the year ended December 31, 2019) and outflow of investment (which was measured by using the exchange rate on outflow date).

The above investment income (losses) were based on the financial statements audited by the Company's auditors.

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China are disclosed in the "Information on significant transactions".

(14) Segment information:

(a) General information

The Group's revenues are mainly from active components for optical communication. The chief operating decision maker (CODM) of the Group used overall operating results as the basis for evaluating performance and considered the Group a single segment. The segment information for the years ended December 31, 2019 and 2018 were the same as the Group's consolidated financial statements.

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(b) Entity-wide information

(i) Product and service information

The Group's product and service revenues from exterior clients were as follows:

Product		2019	2018
Active components for optical communication and modules	$	1,016,350	1,441,183
Chips		82,757	43,528
Others		91,339	40,364
	$	1,190,446	1,525,075

(ii) Geographic information

In presenting information on the basis of geography, revenue is based on the geographical location of customers, and non-current assets are based on the geographical location of the assets. Details were as follows:

Geographic Information		2019	2018
Revenues from external customers:			
Taiwan	$	60,162	66,718
China		418,482	943,544
America		705,047	505,932
Other		6,755	8,881
	$	1,190,446	1,525,075

Non-current assets:

		December 31, 2019	December 31, 2018
Taiwan	$	1,208,854	1,325,308

(iii) Major customer information

The information on major customers that accounted for more than 10% of revenue in the consolidated statements of comprehensive income in 2019 and 2018 is as follows:

		2019		2018	
		Net sales	Percentage of net sales	Net sales	Percentage of net sales
Company CN-A082	$	481,802	40	395,488	26
Company CN-A055		199,054	17	77,862	5
Company CN-HK06		146,374	12	153,876	10
Company CN-C052		34,430	3	257,696	17
Company CN-HK05		10,599	1	265,190	17
	$	872,259	73	1,150,112	75