

APAQ TECHNOLOGY CO., LTD.
and Subsidiaries

**Consolidated Financial Statements and
Report of Independent Accountants**

2019 and 2018

**Headquarters: 4F., No.2 & 6, Kedong 3rd Rd., Chunan
Township, Miaoli County**

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Statement of Declaration

In year 2019 (from January 1 to December 31, 2019), pursuant to Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, the Company's entities that shall be included in preparing the Consolidated Financial Statements for Affiliates and the Parent-Subsidiary Consolidated Financial Statements for International Financial Reporting Standards (IFRS) 10 are the same. Moreover, the disclosure information required for the Consolidated Financial Statements for Affiliates has been fully disclosed in the aforementioned Parent-Subsidiary Consolidated Financial Statements; hence, a separate Consolidated Financial Statements for Affiliates will not be prepared.

Hereby declared by

Company Name: APAQ TECHNOLOGY CO.,

LTD.

Chairman: Dr. DJ Zheng

March 24, 2020

Report of Independent Accountants

To the Board of Directors and shareholders of APAQ TECHNOLOGY CO., LTD.

Opinion

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

In our opinion, based on our audits and the audit reports of other independent accountants, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the consolidated company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards. Our responsibilities under those standards are further described in the section titled "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements." We are independent of the consolidated company in accordance with the Code of Professional Ethics for Certified Public Accountants, 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 for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year 2019. These matters were addressed in our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not express a separate opinion on these matters. Key audit matters for the consolidated company's consolidated financial statements of the current period are stated as follows:

I. Assessment of allowance for uncollectible accounts from accounts receivable

Please refer to Note 4 (7) Financial Instruments in the consolidated financial report for accounting policies related to the assessment of allowance for uncollectible accounts from accounts receivable. Please refer to Note 5 for details on the accounting estimate and assumption uncertainty of allowance for uncollectible accounts from accounts receivable, and Note 6 (4) for bills and accounts receivable.

Description:

Most customers of the consolidated company belong to sectors including consumer electronics, peripheral devices for computers and wireless communication. Due to the rapid changes in the industry, technology, market, economy or regulatory environment, it is difficult to obtain financial information from the customers. When assessing the lifetime expected credit losses of the accounts receivable, the potential impairment is measured by factors such as the aging analysis of the receivables, the customer's financial position, collection records, current market conditions and forward-looking information. The assessment of allowance for uncollectible accounts from accounts receivable therefore has an element of subjective judgment from the management, which is a matter the accountants need to address when carrying out the audits of the consolidated financial report of the consolidated company.

How our audit addressed the matter:

The main audit procedure includes obtaining the calculation sheet for the assessment of allowance for uncollectible accounts from accounts receivable from the management to verify the calculations, sampling and verifying the completeness of the accounts receivable aging schedule and the accuracy of the aging interval, while analyzing the age of receivables, historical collection records and the customers' credit risk concentration etc. to test the appropriateness of the expected credit loss rate, in order to evaluate the reasonableness of the consolidated company's assessment of allowance for uncollectible accounts from accounts receivable. In addition, the appropriateness of the management's disclosure of impairment of accounts receivable is also evaluated.

II. Inventory assessment

For accounting policies related to inventory assessment, please refer to Note 4 (8) Inventory of the consolidated financial report. For accounting estimates and assumption uncertainty for inventory assessment, please refer to Note 5 of the consolidated financial report. Relevant details can be found in Note 6 (5) net inventory.

Description:

Since inventory is measured by the lower of cost and net realizable value, companies need to employ judgments and estimates to determine the net realizable value of inventory on the reporting date. Due to the rapid evolution in technology, the net realizable value fluctuates and potentially leads to significant changes. Therefore, the assessment for the allowance for price decline in inventories is one of the important evaluation items for the accountant when auditing the consolidated company's consolidated financial report.

How our audit addressed the matter:

Our main audit procedure for the above-mentioned key matters includes obtaining the inventory aging report and checking the general ledger, selecting appropriate samples from the inventory aging report to compare with the transaction documents to verify that the inventory has been placed in the appropriate interval of the inventory aging report, understanding the management's strategy for calculating the net realizable value and checking relevant documents, evaluating the reasonableness of the inventory price decline and the policy for taking stock of obsolete and slow-moving inventories, assessing whether the inventory evaluation has been implemented in accordance with the established accounting policies, and evaluating whether the management's disclosure for allowance for price decline in inventories is reasonable.

Other Matters

We have audited and expressed an unqualified opinion with other matter section on the parent company only financial statements of APAQ TECHNOLOGY CO., LTD. as at and for the years ended December 31, 2019 and 2018.

Responsibilities of Management and Governing Bodies 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, 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 consolidated company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the consolidated company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the supervisors, are responsible for overseeing the consolidated company'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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. Misstatement may arise from fraud or error. Misstatements 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 GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- I. 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.
- II. 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 consolidated company's internal control.
- III. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- IV. 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 consolidated company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated company to cease to continue as a going concern.

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

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

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

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

KPMG

CPA : Allan Yu
Grace Lu

Securities : (88) Taiwan Financial
Competent : Securities No.18311
Authority : FSC Ref. No.1000028068
Approval No.

March 24, 2020

----- Disclaimer -----

This English version is a translation based on the original Chinese version.

Where any discrepancy arises between the two versions, the Chinese version shall prevail.

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Consolidated Balance Sheets
Years ended on December 31, 2019 and 2018

Unit: NT\$ thousands

	2019.12.31		2018.12.31			2019.12.31		2018.12.31	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Equity				
Current assets:					Current liabilities:				
1100	\$ 700,953	19	635,709	17	2100	\$ 924,840	25	1,103,585	30
1110					2170	307,178	9	187,682	5
			52	-	2180	4,968	-	-	-
1120					2201	79,378	2	67,891	2
	143,891	4	243,564	7	2213	14,419	-	54,458	1
1150	87,461	2	9,393	-	2280	6,113	-	-	-
1170	780,770	22	483,054	13	2320	2,095	-	-	-
1180	22,724	-	84,675	2	2399	92,973	3	137,102	3
1310	390,840	11	601,590	16		<u>1,431,964</u>	<u>39</u>	<u>1,550,718</u>	<u>41</u>
1476	37	-	506	-	Non-current liabilities:				
1479	30,746	1	98,421	3	2570	-	-	745	-
	<u>2,157,422</u>	<u>59</u>	<u>2,156,964</u>	<u>58</u>	2530	243,423	7	242,273	6
Non-current assets:					2580	13,739	-	-	-
1517						<u>257,162</u>	<u>7</u>	<u>243,018</u>	<u>6</u>
	117,349	3	121,084	3	Total Liabilities				
1550	45,174	1	46,317	1		<u>1,689,126</u>	<u>46</u>	<u>1,793,736</u>	<u>47</u>
1600	1,176,196	32	1,279,218	34	Equity [Note 6 (13) and (18)]:				
1840	54,726	2	41,425	1	3100	845,011	23	844,419	23
1755	30,967	1	-	-	3200	560,800	15	559,411	15
1780	37,259	1	41,630	1	3300	680,939	19	622,179	17
1984	25,458	1	26,155	1	3400	(121,763)	(3)	(51,199)	(1)
1990	9,562	-	27,856	1	3500	-	-	(27,897)	(1)
	<u>1,496,691</u>	<u>41</u>	<u>1,583,685</u>	<u>42</u>		<u>1,964,987</u>	<u>54</u>	<u>1,946,913</u>	<u>53</u>
Total assets	\$ 3,654,113	100	3,740,649	100		\$ 3,654,113	100	3,740,649	100

(Please see notes for the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-dong Lin

Accounting manager: Pei-lin Lee

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years ended on December 31, 2019 and 2018

Unit: NT\$ thousands

		2019		2018	
		Amount	%	Amount	%
4110	Net sales revenue [Note 6 (20) and 7]	\$ 2,002,841	100	2,042,820	100
5110	Cost of goods sold [Note 6 (5), (14), (15), (16), (21) and 7]	1,540,718	77	1,525,524	75
5900	Gross profit	462,123	23	517,296	25
6000	Operating expenses [Note 6 (14), (15), (16), (21) and 7]				
6100	Selling expenses	79,652	4	77,553	4
6200	General and administrative expenses	120,164	6	120,986	6
6300	Research and development expenses	54,256	3	54,787	3
	Total operating expenses	254,072	13	253,326	13
6900	Operating profit	208,051	10	263,970	12
7000	Non-operating income and expenses:				
7020	Other gains and losses [Note 6 (13) and (22)]	11,521	1	12,160	1
7050	Finance costs [Note 6 (13), (14) and (22)]	(25,956)	(1)	(25,986)	(1)
7100	Interest revenue	5,795	-	4,481	-
7230	Net foreign exchange gain [Note 6 (23)]	(8,436)	-	(1,834)	-
7370	Share of profit of associates accounted for under equity method [Note 6 (6)]	1,227	-	1,033	-
	Total non-operating income and expenses	(15,849)	-	(10,146)	-
7900	Profit before income tax	192,202	10	253,824	12
7950	Less: Income tax expense [Note 6 (17)]	53,131	3	71,481	3
	Profit for the year	139,071	7	182,343	9
8300	Other comprehensive income:				
8310	Components of other comprehensive income (loss) that will not be reclassified to profit or loss				
8316	Unrealized gain (loss) on valuation of equity investment at fair value through other comprehensive income	(13,048)	(1)	18,733	1
	Other comprehensive income (loss) that will not be reclassified to profit or loss	(13,048)	(1)	18,733	1
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss				
8361	Financial statements translation differences of foreign operations	(68,304)	(3)	(20,439)	(1)
8399	Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss [Note 6 (17)]	13,661	(1)	5,468	-
	Other comprehensive income (loss) that will be reclassified to profit or loss	(54,643)	(2)	(14,971)	(1)
8300	Other comprehensive income (loss) for the year (net, after tax)	(67,691)	(3)	3,762	-
	Total comprehensive income for the year	\$ 71,380	4	186,105	9
	Earnings per share (Unit: NT\$) [Note 6 (19)]				
9750	Basic earnings per share	\$ 1.66		2.24	
9850	Diluted earnings per share	\$ 1.61		2.19	

(Please see notes for the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-dong Lin

Accounting manager: Pei-lin Lee

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Consolidated Statements of Changes in Equity
Years ended December 31, 2019 and 2018

Unit: NT\$ thousands

	Equity			Retained earnings				Other equity items			Treasury stock	Total equity	
	Share capital - common stock	Capital collected in advance	Total	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Financial statements translation differences of foreign operations	Interest (loss) of equity instrument investment at fair value through other comprehensive income			Total
Balance as of January 1, 2018	\$ 731,901	29,046	760,947	243,704	88,615	34,568	468,406	591,589	(45,141)	(5,365)	(50,506)	(71,286)	1,474,448
Profit for the year	-	-	-	-	-	-	182,343	182,343	-	-	-	-	182,343
Other comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	(14,971)	18,733	3,762	-	3,762
Total comprehensive income for the year	-	-	-	-	-	-	182,343	182,343	(14,971)	18,733	3,762	-	186,105
Earnings appropriation and distribution:													
Legal reserve appropriated	-	-	-	-	18,910	-	(18,910)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	9,521	(9,521)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(156,208)	(156,208)	-	-	-	-	(156,208)
Transfer of treasury stock to employees	-	-	-	3,642	-	-	-	-	-	-	-	5,133	8,775
Issuance of common stock for cash	55,000	-	55,000	207,716	-	-	-	-	-	-	-	-	262,716
Issuance of common stock for cash and retained employee compensation	-	-	-	7,624	-	-	-	-	-	-	-	-	7,624
Issuance of convertible corporate bonds	-	-	-	11,825	-	-	-	-	-	-	-	-	11,825
Conversion of convertible corporate bonds	80,718	(29,046)	51,672	127,853	-	-	-	-	-	-	-	-	179,525
Treasury stock buyback	-	-	-	-	-	-	-	-	-	-	-	(27,897)	(27,897)
Disposal of treasury stock	(23,200)	-	(23,200)	(42,953)	-	-	-	-	-	-	-	66,153	-
Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	4,455	4,455	-	(4,455)	(4,455)	-	-
Balance as of December 31, 2018	844,419	-	844,419	559,411	107,525	44,089	470,565	622,179	(60,112)	8,913	(51,199)	(27,897)	1,946,913
Profit for the year	-	-	-	-	-	-	139,071	139,071	-	-	-	-	139,071
Other comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	(54,643)	(13,048)	(67,691)	-	(67,691)
Total comprehensive income for the year	-	-	-	-	-	-	139,071	139,071	(54,643)	(13,048)	(67,691)	-	71,380
Earnings appropriation and distribution:													
Legal reserve appropriated	-	-	-	-	18,235	-	(18,235)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	-	7,110	(7,110)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(83,184)	(83,184)	-	-	-	-	(83,184)
Conversion of convertible bonds	-	592	592	1,389	-	-	-	-	-	-	-	-	1,981
Transfer of treasury stock to employees	-	-	-	-	-	-	-	-	-	-	-	38,055	38,055
Buyback of treasury stocks	-	-	-	-	-	-	-	-	-	-	-	(10,158)	(10,158)
Disposal of equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	2,873	2,873	-	(2,873)	(2,873)	-	-
Balance as of December 31, 2019	844,419	592	845,011	560,800	125,760	51,199	503,980	680,939	(114,755)	(7,008)	(121,763)	-	1,964,987

(Please see notes for the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-dong Lin

Accounting manager: Pei-lin Lee

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2019 and 2018

Unit: NT\$ thousands

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Profit before tax for the year	\$ 192,202	253,824
Adjustments:		
Income and expenses having no effect on cash flows		
Depreciation	184,418	132,805
Amortization	4,359	5,152
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	52	432
Interest expense	25,956	25,986
Dividend income	(8,873)	(2,220)
Interest income	(5,795)	(4,481)
Allowance for loss on market value decline and obsolete and slow-moving inventories	1,500	10,001
Compensation cost relating to share-based payment	-	11,266
Share of corporate profit or loss recognized under the equity method	(1,227)	(1,033)
Loss (gain) on disposal and retirement of property, plant and equipment	1,410	(52)
Other net expenses (gain) having no effect on cash flows	132	13,598
Total income and expense items	<u>201,932</u>	<u>191,454</u>
Changes in assets/liabilities relating to operating activities		
Accounts receivable and notes	(375,784)	289,888
Accounts receivable - related parties	61,951	(6,024)
Inventories	209,250	(291,751)
Other operating assets	68,144	(49,871)
Accounts payable	119,496	(176,634)
Accounts payable - related parties	4,968	-
Other operating liabilities	<u>27,469</u>	<u>(7,148)</u>
Total adjustments for reconcile profit (loss)	<u>317,426</u>	<u>(50,086)</u>
Cash flows from operating activities	<u>509,628</u>	<u>203,738</u>
Interest received	5,795	4,481
Dividends received	8,873	2,220
Interest paid	(22,723)	(19,587)
Income tax paid	<u>(108,274)</u>	<u>(54,530)</u>
Net cash flows from operating activities	<u>393,299</u>	<u>136,322</u>
Cash flows from investing activities:		
Financial assets at fair value through other comprehensive gains and losses - current	-	(202,319)
Disposal of financial assets measured at fair value through other comprehensive income - current	82,862	27,370
Financial assets at fair value through other comprehensive gains and losses - non-current	-	(56,150)
Disposal of financial assets measured at fair value through other comprehensive income - non-current	7,500	-
Acquisition of investments accounted for under equity method	-	(44,898)
Acquisition of property, plant and equipment	(152,036)	(503,204)
Disposal of property, plant and equipment	3	1,790
Acquisition of intangible assets	-	(369)
Decrease (increase) in other financial assets	697	(22,377)
Decrease (increase) in other non-current assets	<u>(515)</u>	<u>2,144</u>
Net cash flows used in investing activities	<u>(61,489)</u>	<u>(798,013)</u>
Cash flows from financing activities:		
Increase in short-term borrowings	362,580	1,237,550
Repayment of short-term borrowings	(537,040)	(810,900)
Issuance of convertible corporate bonds	-	245,804
Repayment of the principal amount of rentals	(5,727)	-
Cash dividends paid	(83,184)	(156,208)
Issuance of common stock for cash	-	262,716
Cost for treasury stock buyback	(13,520)	(27,897)
Transfer of treasury stocks to employee	<u>38,055</u>	<u>5,133</u>
Cash flows from (used for) financing activities	<u>(238,836)</u>	<u>756,198</u>
Effect of exchange rates on cash and cash equivalents	<u>(27,730)</u>	<u>(4,515)</u>
Increase in cash and cash equivalents	65,244	89,992
Cash and cash equivalents, beginning of year	635,709	545,717
Cash and cash equivalents, end of the year	<u>\$ 700,953</u>	<u>635,709</u>

(Please see notes for the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-dong Lin

Accounting manager: Pei-lin Lee

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Consolidated Financial Report Note
2019 and 2018

(The unit for all amounts expressed are in thousands of NTD unless otherwise stated)

I. History and Organization

APAQ TECHNOLOGY CO., LTD. (hereinafter referred to as the Company) was established on December 23, 2005 with the registered address at 4F., No.2 and 6, Kedong 3rd Rd., Chunan Township, Miaoli County. The Company's stock has been listed and traded at TWSE since December 9, 2014.

The core business of the Company and its subsidiaries (hereinafter referred to as "the consolidated company") focuses on the research, development, manufacturing and sales of electronic components.

II. The Date of Authorization for Issuance of the Consolidated Financial Statements and Procedures for Authorization

These consolidated financial statements were authorized for issuance by the Board of Directors on March 24, 2020.

III. Application of New Standards, Amendments and Interpretations

(I) Effect of the adoption of new issuances of or amendments to the guidelines as endorsed by the Financial Supervisory Commission

The consolidated company has adopted International Financial Reporting Standards approved by the Financial Supervisory Commission (hereinafter as FSC) since 2019 to prepare the consolidated financial statements. New standards, interpretations and amendments endorsed by FSC are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective date by International Accounting Standards Board</u>
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 2015-2017-	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact on the consolidated financial statements. The nature and effect of significant impact on the financial statements is described below:

1. IFRS 16: "Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases

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Notes to the Consolidated Financial Report (continued)

– Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The consolidated company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

(1) Definition of a lease

Previously, the consolidated company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the consolidated company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4 (11).

On transition to IFRS 16, the consolidated company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after the date of initial application.

(2) As a lessee

As a lessee, the consolidated company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the consolidated company. Under IFRS 16, the consolidated company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The consolidated company decided to apply recognition exemptions to leases of low-value assets for leases of business premises and office.

A. Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the consolidated company's incremental borrowing rate as of the date of initial application. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the consolidated company used the following practical expedients when applying IFRS 16 to leases:

- a. Applied a single discount rate to a portfolio of leases with similar characteristics.
- b. Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

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- c. Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- d. Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- e. Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(3) Impact on financial statements

On transition to IFRS 16, the consolidated company recognized NT\$31,469,000 and NT\$19,495,000 of right-of-use assets and lease liabilities as of the date of initial application. The aforementioned right-of-use assets include land use rights of NT\$11,974,000 in China, which are reclassified as right-of-use assets as of the date of initial application. When measuring lease liabilities, the consolidated company discounted lease payments using its incremental borrowing rate as of the date of initial application. The weighted-average rate applied is 1.1509%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<u>2019.1.1</u>
Operating lease commitment at December 31, 2018 as disclosed in the financial statements	\$ 17,676
Recognition exemptions:	
Leases of low-value assets	(96)
The option to reasonably ascertain the extension or termination of the lease	<u>2,396</u>
	<u>19,976</u>
Amount discounted at the incremental borrowing rate of January 1, 2019	19,495
Amount of finance lease obligations recognized as of December 31, 2018	-
Amount of lease liability recognized as of January 1, 2019	<u>\$ 19,495</u>

2. IFRIC 23 - Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have the full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by

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using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

The adoption of IFRIC 23 did not have any significant impact on the consolidated company's financial statements.

- (II) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the consolidated company

In accordance with Decree No. 1080323028 of the FSC published on July 29, 2019, listed companies shall fully adopt IFRSs endorsed by the FSC with an effective date in 2020. New standards, interpretations and amendments endorsed by FSC are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020

The application of the newly endorsed IFRSs will not have a material impact on the consolidated financial statements.

- (III) Effect of IFRSs issued by IASB but not yet endorsed by the FSC

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

<u>New Standards, Amendments and Interpretations</u>	<u>Effective date by IASB</u>
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-Current"	January 1, 2022

The consolidated company is in the process of evaluating the impact on its financial position and performance of the adoption of the aforementioned standards and interpretations. The results thereof will be disclosed when the evaluation is completed.

IV. Summary of Significant Accounting Policies

The significant accounting policies applied for the consolidated financial report is as follows. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

- (I) Statement of Compliance

The consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers",

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Notes to the Consolidated Financial Report (continued)

International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(II) Basis of Preparation

1. Basis of measurement

Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (1) Financial assets measured at fair value through profit or loss;
- (2) Financial assets/liabilities measured at fair value through profit or loss through other comprehensive income.

2. Functional currency and presentation currency

The consolidated company takes the currency of the primary economic environment in which each entity operates as the functional currency. The consolidated financial statements are presented in New Taiwan dollars, which is the Company’s functional currency. The unit for all amounts expressed are in thousands of NTD unless otherwise stated.

(III) Basis of consolidation

1. Basis for preparation of consolidated financial statements:

All subsidiaries are included in the consolidated financial statements. Subsidiaries are all entities controlled by the Company.

The Company 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 power over the entity.

Consolidation of subsidiaries begins from the date the Company obtains control of the subsidiaries and ceases when the Company loses control of the subsidiaries. Inter-company transactions, balances and unrealized gains or losses on transactions between entities within the consolidated companies are eliminated while compiling the consolidated financial statements.

Accounting policies of subsidiaries have been adjusted so that they are consistent with that of the consolidated company.

Changes in a parent’s ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners.

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Notes to the Consolidated Financial Report (continued)

2. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of subsidiary	Main business activities	Ownership (%)	
			2019.12.31	2018.12.31
The Company	APAQ Investment Limited (APAQ Samoa)	Investment holding company	100%	100%
APAQ Samoa	Apaq Technology (Wuxi) Co., Ltd., (Apaq Wuxi)	Production and sales of electronic products	100%	100%
The Company	Apaq Technology (Hubei) Co., Ltd., (Apaq Hubei)	Production and sales of electronic products	100%	Note

Note: The Company started investing in the establishment of Apaq Hubei in September 2019, which has been included in the consolidated financial statements since the date of investment.

3. Subsidiaries not included in the consolidated financial statements: None.

(IV) Foreign currency

1. Foreign currency transaction

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are converted into functional currency at the end of each subsequent date of financial reporting (hereinafter referred to as the reporting date) at the exchange rate on that day.

Foreign currency items measured at fair value are re-translated into functional currency according to the exchange rate on the date of fair value, and foreign currency non-currency items measured through historical cost will be translated according to the exchange rate on the date of transaction.

Foreign currency exchange differences arising from conversion are generally recognized in profit or loss, but equity instruments designated as fair value through other comprehensive income are recognized in other comprehensive income.

2. Foreign operations

Assets and liabilities of foreign operations are converted to NTD (representation currency of the consolidated financial statements) at the exchange rate on the reporting date. All income and expense items are converted to NTD at the current average exchange rate, and the difference is recognized as other comprehensive income.

(V) Classification of current and non-current items

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

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Notes to the Consolidated Financial Report (continued)

1. Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
2. Assets held mainly for trading purposes;
3. Assets that are expected to be realized within twelve months from the balance sheet date; or
4. Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

1. Liabilities that are expected to be paid off within the normal operating cycle;
2. Liabilities arising mainly from trading activities;
3. Liabilities that are to be paid off within twelve months from the balance sheet date; or
4. Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. 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.

(VI) Cash and cash equivalents

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

(VII) Financial instruments

The accounts receivable and debt securities issued were originally recognized when they were generated. All other financial assets and financial liabilities were recognized when the consolidated company became a party to the financial instrument contract. Financial assets that are not measured at fair value through profit or loss (other than accounts receivable that do not contain a significant financing component) or financial liabilities are originally measured at fair value plus the transaction costs directly attributable to the acquisition or issuance. The accounts receivable that do not contain a significant financing component are measured at transaction prices.

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Notes to the Consolidated Financial Report (continued)

1. Financial assets

For the purchase or sale of financial assets that conforms to customary transactions, the consolidated company consistently treats all purchases and sales of financial assets classified in the same manner based on the transaction date or delivery date.

Financial assets are classified into the following categories: measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit and loss.

The consolidated company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets from the next reporting period.

(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 measured at fair value through profit and loss:

- 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.

A financial asset measured at amortized cost is subsequently recognized at their initial value, plus any directly attributable transaction costs using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign currency profit or loss and impairment loss are recognized as profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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

On initial recognition of an equity investment that is not held for trading, the consolidated company 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.

An investment through equity instrument is subsequently measured at fair value. Dividend income is recognized as equity, and the remaining net profit or loss is recognized as other comprehensive profit or loss that is not reclassified to profit or loss.

Dividend income derived from equity investments is recognized on the date that the consolidated company's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

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Notes to the Consolidated Financial Report (continued)

(3) Financial assets measured at fair value through profit and loss

All financial assets not classified as amortized cost or measured at fair value through other comprehensive income described as above are measured at fair value through profit and loss, including derivatives. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or measured at fair value through other comprehensive income, as at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value, and their net benefits or losses (including any dividends and interest income) are recognized as profit or loss.

(4) Impairment of financial assets

The consolidated company recognizes loss allowances for ECL on financial assets measured at amortized cost.

The consolidated company measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and 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 receivable are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the consolidated company 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 consolidated company's historical experience and informed credit assessment as well as forward-looking information.

The consolidated company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings. The consolidated company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The consolidated company considers a financial asset to be in default when

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Notes to the Consolidated Financial Report (continued)

the financial asset is more than 90 days past due and the borrower is unlikely to pay its credit obligations to the consolidated company in full.

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

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

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

The consolidated company evaluates whether there is credit impairment in measuring financial assets through amortized cost on every reporting date. When there is one or more events arising that will bring unfavorable influence to expected future cash flow, there is already credit impairment to the financial asset.

The allowance loss of financial assets measured through amortized cost is deducted from the carrying amount of assets.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. The consolidated company analyzes the timing and amount of the write-off individually on the basis of whether it can reasonably be expected to be recovered. The consolidated company expects that the amount written off will not be materially reversed. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the consolidated company's procedures for recovery of amounts due.

(5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash flows from the assets expire, or when the consolidated company transfers substantially all the risks and rewards of ownership of the financial assets, or when the consolidated company has neither transferred nor retained ownership of all risks and rewards or control over said financial assets.

When the consolidated company signs a transaction to transfer financial assets, if it retains all or almost all risks and rewards of ownership of the transferred assets, it will continue to be recognized on the balance sheet.

2. Financial liabilities and equity instruments

(1) Classification of liabilities or equities

Debt and equity instruments issued by the consolidated company are

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Notes to the Consolidated Financial Report (continued)

classified separately as financial liabilities and equity in accordance with the substance of contractual arrangements and the definitions of a financial liability and an equity instrument.

(2) Equity transactions

Equity instruments refer to any contracts containing the consolidated company's residual interest after subtracting liabilities from assets. The equity instrument issued by the consolidated company shall be recognized by the payment net of the direct cost of issuance.

(3) Treasury stock

When buying back the equity instruments recognized by the consolidated company, the consideration paid (including directly attributable costs) is recognized as a decrease in equity. The repurchased shares are classified as treasury stocks. For subsequent sales or re-issuance of treasury stocks, the amount received is recognized as an increase in equity, and the remaining or loss generated by the transaction is recognized as a capital reserve or retained surplus (if the capital reserve is insufficient for the offsetting).

(4) Composite financial instruments

The composite financial instruments issued by the consolidated company refer to corporate bonds for which holders enjoy the option to convert them into capital, and the number of issued shares will not change with variation of fair value.

For the components of composite financial instruments liability, the originally recognized amount is measured at fair value through similar liability of equity conversion option. For the components of equity, the originally recognized amount is measured by the difference between fair value of overall composite financial instruments and fair value of components of liability. Any directly attributable transaction cost will be amortized to liability and equity components according to the carrying amount ratio of original liability and equity.

After initial recognition, the liability components of composite financial instruments are measured through amortized cost with effective interest rate method. The components of composite financial instruments will not be re-measured after initial recognition.

Interest related to financial liabilities is recognized as profit or loss. Financial liability is reclassified as equity upon conversion without being recognized as profit or loss.

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Notes to the Consolidated Financial Report (continued)

(5) Financial liabilities

Financial liabilities are classified as amortized costs or measured at fair value through profit or loss. Financial liabilities are classified as measured at fair value through profit or loss if they are held for trading, derivatives, or designated at initial recognition. Financial liabilities measured at fair value through profit or loss are measured at fair value. All related net benefits and losses, including any interest expenses, are recognized as profit or loss.

Other financial liabilities are measured at amortized cost by the effective interest method. Interest income and foreign currency profit or loss are recognized as profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(6) Derecognition of financial liabilities

The consolidated company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. When the terms of financial liabilities are modified and the cash flow of the modified liabilities is significantly different, the original financial liabilities are excluded and the new financial liabilities are recognized at fair value based on the revised terms.

When derecognizing financial liabilities, the difference between the carrying amount of a financial liability and the consideration paid (including all transferred non-cash assets or liabilities) is recognized in non-operating income and expenses.

(7) Offsetting of financial assets and liabilities

The consolidated company presents financial assets and liabilities on a net basis when the consolidated company has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

3. Derivative financial instruments

Embedded derivatives are treated separately from the main contract when they meet certain conditions and the main contract is not a financial asset. Derivative instruments are initially measured at fair value. Subsequent measurements are based on fair value, and the resulting benefits or losses are directly recognized as profit or loss.

(VIII) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the standard cost method and includes expenditure and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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(IX) Investments in associates

Associates refer to the consolidated company holding 20% to 50% of the voting rights of the investee, or less than 20% but having a significant influence on its financial and operating policies without obtaining control. They are evaluated under the equity method.

Under equity method, they are recognized through cost in original acquisition, and investment costs includes transaction costs. The carrying amount of invested associates includes identified goodwill at the time of investment less any cumulative impairment.

The consolidated financial statements include the consolidated company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align their accounting policies with those of the consolidated company, from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transaction between the merged consolidated company and the associate shall be recognized in the financial statements only within the scope of the interests of non-related party investors in the associate.

When the consolidated company's share of losses exceeds its interest in associates, the carrying amount of that investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the consolidated company has a present legal or constructive obligation or has made payments on behalf of the investees.

(X) Property, plant and equipment

1. Recognition and measurement

Property, plant and equipment are measured by cost (including capitalized borrowing costs) less accumulated depreciation and any accumulated impairment. As the useful life of property, plant and equipment varies, they are deemed as independent items (main components) for treatment.

The gain or loss arising from the disposal of an item of property, plant and equipment shall be recognized as non-operating income and expenses.

2. Subsequent cost

Subsequent cost is only capitalized when the future economic benefits are likely to flow into the consolidated company.

3. Depreciation

Depreciation is calculated based on the cost of assets minus the residual value, and the straight-line method is recognized in profit or loss within the estimated useful life of each component.

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

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- (1) Buildings: 10-20 years
- (2) Machinery and instruments: 4-8 years
- (3) Other equipment and others: 4-8 years

Buildings constitute mainly buildings, air-conditioning equipment and related engineering. Each constituent is depreciated based on its useful life of 20 years and 10 years, respectively.

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

(XI) Lease

Applicable from January 1, 2019

1. Lease judgment

The consolidated company evaluates whether the contract is a lease or contains a lease upon the conclusion of the contract. If the contract transfers control over the use of the identified assets for a period of time in exchange for consideration, the contract is a lease or contains a lease. In order to evaluate whether the contract is a lease, the consolidated company evaluates the following items:

- (1) The contract involves the use of an identified asset that is explicitly specified in the contract or implied by the time when it is available for use. Its entity can distinguish or represent substantially all of its production capacity. If the supplier has substantive rights to replace the asset, the asset is not an identified asset; and
- (2) The right to obtain almost all economic benefits from the use of identified assets throughout the period of use; and
- (3) To obtain the right to lead the use of identified assets when one of the following conditions is met:
 - The client has the right to decide the use of the identified assets and the purpose of use throughout the period of use.
 - Relevant decisions about the way of use and purpose of the asset are made in advance, and:
 - The client has the right to operate the asset during the entire use period, and the supplier does not have the right to change the operation instructions; or
 - The way in which the client plans the asset has pre-determined the way and purpose of use for the entire period of use.

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Upon the conclusion of the lease or when reassessing whether the contract includes a lease, the consolidated company allocates the consideration in the contract to the individual lease components on the basis of the relative individual price. However, when leasing land and buildings, the consolidated company chooses not to distinguish between non-lease components and treats the lease component and non-lease component as a single lease component.

2. Lessee

The consolidated company recognizes the right-of-use asset and lease liability upon the inception of the lease. The right-of-use asset is initially measured at cost, which includes the original measured amount of the lease liability, adjusts any lease payments paid on or before the inception of the lease and adds the original direct cost incurred and the estimated cost of dismantling, removing the underlying asset and restoring its location or underlying asset, and deducting any lease incentive.

The right-of-use asset is subsequently depreciated on a straight-line basis between the inception of the lease and the end of the end-of-life of the right-of-use asset or the end of the lease period. In addition, the consolidated company regularly assesses whether the right-of-use asset is impaired and treats any impairment loss that has occurred, as well as cooperating to adjust the right-of-use asset when the lease liability is remeasured.

Lease liabilities are originally measured by the present value of the lease payments that have not been paid at the inception of the lease. If the implicit interest rate of the lease is easy to determine, it is applied as the discount rate. If it is not easy to determine, the incremental borrowing rate of the consolidated company is used. Generally speaking, the consolidated company adopts the incremental borrowing rate as the discount rate.

Lease payments in the measurement of lease liabilities include:

- (1) Fixed benefits, including substantial fixed benefits;
- (2) Variable lease payments dependent upon certain indicators or rates are measured by the indicators or rates used at the inception of the lease;
- (3) The residual value guarantee expected to be paid; and
- (4) When reasonably determined that the purchase option or lease termination option will be exercised, the exercise price or the penalty payable.

The lease liability is subsequently accrued by the effective interest method, and the amount is measured when the following occurs:

- (1) Changes in the indicator or rate used to determine lease payments result in changes in future lease payments;
- (2) Changes in the residual value guarantee expected to be paid;
- (3) Changes in the evaluation of the underlying asset purchase option;

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(4) Changes in the estimate of whether to exercise the extension or termination option and the assessment of the lease period;

(5) Modification of lease subject, scope or other terms.

When the lease liability is remeasured due to changes in the aforementioned indicator or rate used to determine lease payments, changes in the residual value guarantee, and changes in the evaluation of purchase, extension or termination options, the carrying amount of the right-of-use asset is adjusted accordingly. When the carrying amount of the right-of-use asset is reduced to zero, the remaining remeasured amount is recognized in profit or loss.

For lease modifications that reduce the scope of the lease, the carrying amount of the right-of-use asset is reduced to reflect the partial or full termination of the lease, and the difference between the lease and the remeasured amount of the lease liability is recognized in profit or loss.

The consolidated company expresses the right-of-use assets and lease liabilities that do not meet the definition of investment real estate as separate line items in the balance sheet.

For the lease of low-value underlying assets leased by the office premises, the consolidated company chooses not to recognize the right-of-use assets and lease liabilities, but the related lease payments are recognized on a straight-line basis as expenses during the lease period.

Applicable before January 1, 2019

The lease of the consolidated company is an operating lease, and the rent payment is recognized as an expense during the lease period according to the straight-line method.

(XII) Intangible assets

1. Recognition and measurement

Expenditures related to research activities are recognized as profit or loss when incurred.

Development expenditures are only capitalized when they can be reliably measured, when the technical or commercial feasibility of the product or process has been achieved, when future economic benefits are likely to flow into the consolidated company, and when the consolidated company intends and has sufficient resources to complete the development for use or for sale. Other development expenditures are recognized in profit or loss when incurred. After the initial recognition, capitalized development expenditures are measured by its cost less accumulated amortization and accumulated impairment.

2. Subsequent expenditures

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other

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Notes to the Consolidated Financial Report (continued)

expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

3. Amortization

Except for goodwill, amortization is calculated based on the cost of assets less the estimated residual value. Since the intangible assets are ready for use, the straight-line method is recognized as profit or loss within their estimated useful life.

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

- (1) Computer software: 3 years
- (2) Royalties: 12 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be adjusted when necessary.

(XIII) Impairments of non-financial assets

The consolidated company assesses on each reporting day whether there is any indication that the carrying amount of non-financial assets (other than inventories and deferred income tax assets) may be impaired. If there is any sign of impairment, an estimate is made of its recoverable amount. An impairment test is conducted on goodwill on a yearly basis.

For the purpose of impairment test, a group of assets whose cash inflows are largely independent of the cash inflows of other individual assets or asset groups is used as the smallest identifiable asset group. Goodwill acquired in a business combination is allocated to each cash-generating unit or group of cash-generating units that is expected to benefit from the combined effect of the merger.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell, and its value in use. When evaluating the value in use, the estimated future cash flow is converted to the present value at a pre-tax discount rate, which should reflect the current market assessment of the time value of money and the specific risks for the asset or cash-generating unit.

If the recoverable amount of an individual asset or cash-generating unit is lower than the carrying amount, an impairment loss is recognized.

Impairment loss is recognized immediately in profit or loss, and first reduces the carrying amount of the goodwill of the cash-generating unit, and then reduces the carrying amount of each asset in proportion to the carrying amount of other assets in the unit.

The impairment loss of goodwill will not be reversed. Non-financial assets other than goodwill will only be reversed if they do not exceed the carrying amount (less depreciation or amortization) determined when no impairment loss had been recognized for the asset in the previous year.

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

(XIV) Revenue from contract with customers

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

1. Sales of goods

The consolidated company engages in business such as research, development, production, manufacturing and sales of electronic components. The consolidated company recognizes revenue when control of the products has transferred. The control of the products has transferred 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 consolidated company has a right to an amount of consideration that is unconditional.

2. Financial components

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

(XV) Employee benefits

1. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as expenses for the periods during which services are rendered by employees.

2. Short-term employee benefits

Obligations for short-term employee benefits are recognized as expenses for the periods during which services are rendered. A liability is recognized for the amount expected to be paid if the consolidated company 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.

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

(XVI) Share-based payment transactions

Equity-delivered share-based payment agreement is recognized at the fair value of the grant date with a corresponding increase in equity during the vesting period of the reward. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense 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.

(XVII) Income tax

Income tax expenses include both 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 shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date, as well as tax adjustments related to prior years. The amount is based on the statutory tax rate at the reporting date or the tax rate of substantive legislation to measure the best estimate of the amount expected to be paid or received.

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 tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

1. The entity has the legal right to settle tax assets and liabilities on a net basis; and
2. the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - (1) levied by the same taxing authority; or
 - (2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry forward of unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax credits and deductible temporary

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Notes to the Consolidated Financial Report (continued)

differences can be utilized. Such unused tax credits and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax credits and deductible temporary differences can be utilized.

(XVIII) Earnings per share

The consolidated company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The consolidated company's dilutive potential ordinary shares include convertible bonds payable and employee remuneration through the issuance of shares.

(XIX) Operating segment information

An operating segment is a component of the consolidated company 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 consolidated company). Operating results of the operating segment are regularly reviewed by the consolidated company'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.

V. Major Sources of Accounting Judgments, Estimations and Assumptions of Uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimations 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 estimations.

Management continues to monitor the accounting estimations and assumptions. Management recognizes any changes in the accounting estimations during the period in which the estimates are revised and in any future periods affected.

Accounting policies involve significant judgments. Information that has a significant impact on the consolidated financial statements is as follows:

(I) Allowance loss of accounts receivable

The consolidated company has estimated the allowance loss of accounts receivable that is based on the risk of a default occurring and the rate of ECL. The consolidated company has considered historical experience, current economic conditions and forward-looking information at the reporting date to determine the assumptions to be used in calculating the impairments and the selected inputs.

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Notes to the Consolidated Financial Report (continued)

(II) Valuation of inventories

Inventories are stated at the lower of cost or net realizable value, and the consolidated company uses judgments and estimates to determine the net realizable value of inventory for obsolescence and unmarketable items at the reporting date. It also writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on the assumptions of the estimated selling price of the products within a specific time horizon. However, due to the rapid industrial transformation, the above estimation may have a significant change. Please refer to note 6 (5) for further description of the valuation of inventories.

The accounting policy and disclosure of the consolidated company include adopting fair value to measure financial, non-financial assets and liabilities. The consolidated company's finance department determines the fair value using the independent data sources which reflect the current market condition and confirming the data available are independent, reliable, in consistent with other sources and represent the exercisable price. The consolidated company also periodically assesses the evaluation model, performs retrospective tests, and updates inputs together with any other necessary fair value adjustment for the evaluation model in order to ensure the reasonableness of the results of the valuation.

The consolidated company evaluates the assets and liabilities using the observable market inputs. The hierarchy of the fair value depends on the valuation techniques used and is categorized as follows:

- (I) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- (II) Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (III) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

For the transition among different levels of fair value, the consolidated company shall recognize it on the reporting date.

For the assumption used in fair value measurement, please refer to note 6 (23) of the financial instruments.

VI. Description of Significant Accounts

(I) Cash and cash equivalents

	2019.12.31	2018.12.31
Cash and demand deposit	\$ 572,028	434,320
Time deposits	<u>128,925</u>	<u>201,389</u>
Cash and cash equivalents	<u>\$ 700,953</u>	<u>635,709</u>

Please refer to note 6 (23) for the disclosure of currency risk of the financial assets and liabilities.

Please refer to note 6 (24) for the disclosure of credit risks.

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(II)	Financial assets measured at fair value through profit and loss	<u>2019.12.31</u>	<u>2018.12.31</u>
	Redemption rights - payable convertible corporate bonds	<u>\$ -</u>	<u>52</u>

(III) Financial assets measured at fair value through other comprehensive income:

1. Current:

	<u>2019.12.31</u>	<u>2018.12.31</u>
Domestic listed securities	<u>\$ 143,891</u>	<u>243,564</u>

The consolidated company's new investment in 2018 was the acquisition of shares of companies such as Walton Chaintech Corporation for the price of NT\$202,319,000.

The consolidated company sold part of its financial assets - current measured at fair value through other comprehensive profit and loss in 2019 and 2018. The fair value at the time of disposal was NT\$82,862,000 and NT\$27,370,000 respectively, and the cumulative disposal benefits were NT\$10,373,000 and NT\$4,455,000. The aforesaid accumulated disposal benefits have been transferred from other interests to retained earnings.

2. Non-current:

	<u>2019.12.31</u>	<u>2018.12.31</u>
Domestic and foreign unlisted shares		
Foxfortune Technology Ventures Limited	\$ 42,551	24,843
Inpaq Korea Co., Ltd.	701	705
Chia-Lin Venture Capital Co., Ltd.	20,125	21,226
Taiwan Innovative Space Inc.	-	19,508
Kuan Kun Electronic Enterprise Co., Ltd.	49,468	51,056
AICP Technology Corporation	4,504	3,746
	<u>\$ 117,349</u>	<u>121,084</u>

Information on major foreign currency equity investments as of the reporting date is as follows:

	<u>2019.12.31</u>			<u>2018.12.31</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
USD	\$ 1,017	29.98	30,490	1,017	30.715	31,237

Equity instruments held by the consolidated company are strategic long-term investments and not for trading purposes, so they have been designated to be measured at fair value through other comprehensive income.

The consolidated company's new investments for 2018 include in Kuan Kun Electronic Enterprise Co., Ltd. and AICP Technology Corporation, with a total acquisition price at NT\$56,150,000.

The consolidated company sold part of its non-current financial assets measured at fair value through other comprehensive profit and loss in 2019. The fair value

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Notes to the Consolidated Financial Report (continued)

at the time of disposal was NT\$7,500,000, and the cumulative disposal loss was NT\$7,500,000 has been transferred from other equity to retained earnings.

The consolidated company has designated the aforementioned items as an equity instrument investment measured at fair value through other comprehensive income. The dividend income recognized in 2019 and 2018 was NT\$8,873,000 and NT\$2,220,000 respectively.

(IV) Notes and accounts receivable

	<u>2019.12.31</u>	<u>2018.12.31</u>	<u>2018.1.1</u>
Notes receivable	\$ 87,461	9,393	7,715
Accounts receivable	780,770	483,054	774,620
	<u>\$ 868,231</u>	<u>492,447</u>	<u>782,335</u>

The consolidated company adopts a simplified method to estimate the expected credit loss for all receivables (including related parties), that is, the expected credit loss measurement during the lifetime. For this purpose, these receivables paid on behalf of the customer in accordance with the contract are categorized based on common credit risk characteristics of the amount due capacity with forward-looking information incorporated, including general economic and related industry information. The expected credit losses of the consolidated company's receivables (including related parties) are analyzed as follows:

	<u>2019.12.31</u>		
	<u>Carrying amount of accounts receivable (including related parties)</u>	<u>Rate of expected lifetime credit loss</u>	<u>Allowance of expected lifetime credit loss</u>
Not past due	\$ 880,459	0%	-
Past due 0-60 days	10,496	0%	-
Past due 61-90 days	-	0%	-
Past due more than 91 days	-	100%	-
Total	<u>\$ 890,955</u>		<u>-</u>

	<u>2018.12.31</u>		
	<u>Carrying amount of accounts receivable (including related parties)</u>	<u>Rate of expected lifetime credit loss</u>	<u>Allowance of expected lifetime credit loss</u>
Not past due	\$ 557,926	0%	-
Past due 0-60 days	19,196	0%	-
Past due 61-90 days	-	0%	-
Past due more than 91 days	-	100%	-
Total	<u>\$ 577,122</u>		<u>-</u>

In 2019 and 2018, the consolidated company did not include any impairment losses for receivables (including related parties). In addition, the application of the IFRS 9 would not require any adjustments.

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Notes to the Consolidated Financial Report (continued)

Please refer to Note 6 (23) for details of remaining credit risk information.

(V) Inventories, net

	<u>2019.12.31</u>	<u>2018.12.31</u>
Raw materials	\$ 125,015	209,499
Work in process and semi-finished products	49,683	69,719
Finished goods and commodity	216,142	322,372
	<u>\$ 390,840</u>	<u>601,590</u>

The details of operating costs were as follows:

	<u>2019</u>	<u>2018</u>
Cost of goods sold	\$ 1,539,223	1,515,622
Inventory devaluation loss	1,500	10,001
Revenue from sale of scrap	(5)	(99)
	<u>\$ 1,540,718</u>	<u>1,525,524</u>

(VI) Investments accounted for using equity method

The consolidated company invested RMB 9,800,000 in Shenzhen Gather Electronics Science Co., Ltd. on July 1, 2018 to obtain a 35% equity interest and thus obtained significant influence on the company.

The summarized financial information from associates using the equity method adopted by the consolidated company is as follows. The amount is included in the consolidated financial statements of the consolidated company:

	<u>2019.12.31</u>	<u>2018.12.31</u>
The carrying amount of equity at the end of the period of individual non-significant associates.	<u>\$ 45,174</u>	<u>46,317</u>

Share attributable to the consolidated company:

	<u>2019</u>	<u>2018</u>
Profit for the year	\$ 1,227	1,033
Other comprehensive income (loss) in this period	-	-
Total comprehensive income for the year	<u>\$ 1,227</u>	<u>1,033</u>

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(VII) Property, plant and equipment (PP&E)

	<u>Building</u>	<u>Machinery and equipment</u>	<u>Other equipment and others</u>	<u>Construction in progress</u>	<u>Total</u>
Cost:					
Balance as of January 1, 2019	\$ 368,584	1,413,492	90,793	106,163	1,979,032
Additions	-	73,240	12,287	26,470	111,997
Disposals and obsolescence	-	(3,395)	(4,952)	-	(8,347)
Reclassification	-	64,751	18,368	(78,088)	5,031
Effect of exchange rate changes	(14,644)	(58,979)	(2,362)	(1,926)	(77,911)
Balance as of December 31, 2019	<u>\$ 353,940</u>	<u>1,489,109</u>	<u>114,134</u>	<u>52,619</u>	<u>2,009,802</u>
Balance as of January 1, 2018	\$ 334,770	929,350	67,889	126,899	1,458,908
Additions	40,265	393,640	27,415	101,867	563,187
Disposals and obsolescence	(9)	(2,961)	(7,652)	-	(10,622)
Reclassification	-	116,865	4,080	(120,945)	-
Effect of exchange rate changes	(6,442)	(23,402)	(939)	(1,658)	(32,441)
Balance as of December 31, 2018	<u>\$ 368,584</u>	<u>1,413,492</u>	<u>90,793</u>	<u>106,163</u>	<u>1,979,032</u>
Depreciation:					
Balance as of January 1, 2019	\$ 95,175	559,623	45,016	-	699,814
Depreciation for the period	22,745	141,417	14,147	-	178,309
Disposals and obsolescence	-	(2,512)	(4,422)	-	(6,934)
Effect of exchange rate changes	(4,690)	(31,636)	(1,257)	-	(37,583)
Balance as of December 31, 2019	<u>\$ 113,230</u>	<u>666,892</u>	<u>53,484</u>	<u>-</u>	<u>833,606</u>
Balance as of January 1, 2018	\$ 77,680	469,336	45,258	-	592,274
Depreciation for the period	19,142	104,434	9,229	-	132,805
Disposals and obsolescence	-	(1,635)	(7,499)	-	(9,134)
Effect of exchange rate changes	(1,647)	(12,512)	(1,972)	-	(16,131)
Balance as of December 31, 2018	<u>\$ 95,175</u>	<u>559,623</u>	<u>45,016</u>	<u>-</u>	<u>699,814</u>
Carrying amount					
December 31, 2019	<u>\$ 240,710</u>	<u>822,217</u>	<u>60,650</u>	<u>52,619</u>	<u>1,176,196</u>
January 1, 2018	<u>\$ 257,090</u>	<u>460,014</u>	<u>22,631</u>	<u>126,899</u>	<u>866,634</u>
December 31, 2018	<u>\$ 273,409</u>	<u>853,869</u>	<u>45,777</u>	<u>106,163</u>	<u>1,279,218</u>

(VIII) Right-of-use assets

	<u>Land use rights</u>	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost of right-of-use assets:				
Balance as of January 1, 2019	\$ -	-	-	-
Adjustment for retrospective application of new standards	11,974	18,413	1,082	31,469
Additions	-	6,084	-	6,084
Effect of exchange rate changes	(477)	-	-	(477)
Balance as of December 31, 2019	<u>\$ 11,497</u>	<u>24,497</u>	<u>1,082</u>	<u>37,076</u>
Depreciation of right-of-use assets:				
Balance as of January 1, 2019	\$ -	-	-	-
Depreciation for the period	284	5,342	483	6,109
Balance as of December 31, 2019	<u>\$ 284</u>	<u>5,342</u>	<u>483</u>	<u>6,109</u>
Carrying amount of right-of-use assets:				
December 31, 2019	<u>\$ 11,213</u>	<u>19,155</u>	<u>599</u>	<u>30,967</u>

The consolidated company leased offices under business lease in 2018. Please refer to Note 6 (15).

(IX) Other financial assets - current and non-current

	<u>2019.12.31</u>	<u>2018.12.31</u>
Refundable deposit	\$ 25,458	26,155
Other receivables	37	506
	<u>\$ 25,495</u>	<u>26,661</u>

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(X) Other assets - current and non-current

	<u>2019.12.31</u>	<u>2018.12.31</u>
Business tax credit	\$ 17,677	51,196
Long-term prepaid rent	-	11,974
Prepayments for business facilities	7,182	14,017
Prepayment	721	1,990
Prepaid expenses and others	14,728	47,100
	<u>\$ 40,308</u>	<u>126,277</u>

(XI) Intangible assets

	<u>Computer software</u>	<u>Royalties</u>	<u>Total</u>
Cost:			
Balance as of January 1, 2019	\$ 4,643	45,038	49,681
Effect of exchange rate changes	(70)	-	(70)
Balance as of December 31, 2019	<u>\$ 4,573</u>	<u>45,038</u>	<u>49,611</u>
Balance as of January 1, 2018	\$ 4,274	45,038	49,312
Separate acquisition	369	-	369
Balance as of December 31, 2018	<u>\$ 4,643</u>	<u>45,038</u>	<u>49,681</u>
Amortization and impairment loss:			
Balance as of January 1, 2019	\$ 3,672	4,379	8,051
Amortization for the period	606	3,753	4,359
Effect of exchange rate changes	(58)	-	(58)
Balance as of December 31, 2019	<u>\$ 4,220</u>	<u>8,132</u>	<u>12,352</u>
Balance as of January 1, 2018	\$ 2,273	626	2,899
Amortization for the period	1,399	3,753	5,152
Balance as of December 31, 2018	<u>\$ 3,672</u>	<u>4,379</u>	<u>8,051</u>
Carrying amount			
December 31, 2019	<u>\$ 353</u>	<u>36,906</u>	<u>37,259</u>
January 1, 2018	<u>\$ 2,001</u>	<u>44,412</u>	<u>46,413</u>
December 31, 2018	<u>\$ 971</u>	<u>40,659</u>	<u>41,630</u>

(XII) Short-term borrowings

	<u>2019.12.31</u>	<u>2018.12.31</u>
Unsecured bank loans	<u>\$ 924,840</u>	<u>1,103,585</u>
Unused limit	<u>\$ 365,140</u>	<u>597,140</u>
Interest range	<u>1.1%~ 3.56198%</u>	<u>1.1%~ 4.80847%</u>

(XIII) Convertible corporate bonds payable

- The Company issued the first domestic unsecured conversion of corporate bonds on March 1, 2017. The issuance period is three years. The relevant information in the financial statements is as follows:

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	2019.12.31	2018.12.31
Total amount of issuing convertible corporate bonds	\$ 300,000	300,000
Less: unamortized payable corporate bond discount	(5)	(112)
Less: accumulated converted ordinary shares	(297,900)	(295,900)
Less: long-term liabilities due within one year	(2,095)	-
Payable corporate bond balance at the end of the period	\$ -	3,988
Embedded derivatives - redemption rights (presented in financial assets measured at fair value through profit or loss-current)	\$ -	2
	2019	2018
Embedded derivatives - redemption rights and losses remeasured at fair value (reported on financial asset evaluation losses (interests))	\$ 2	(43)
Interest expense	\$ 88	571

The significant terms of the issuances are as follows:

(1) Conversion price and adjustments:

February 18, 2017 is set as the conversion price base date, and the simple arithmetic average of the closing prices of the common shares of the first, third, and fifth business days of the Company before (excluding) the base day is chosen as the base price before multiplying the base price by 102.92% premium rate to calculate the basis. (Calculated to the NTD jiao and rounded up cent). In the case of ex-equity or ex-dividend before the base date, the closing price of the conversion price to be calculated by sampling shall be the price after deducting equity or dividend; the conversion price shall be adjusted according to the conversion price adjustment formula in case of ex-dividend or ex-dividend from the date of decision to the actual date of issue. The conversion price at the time of issue is NT\$38.7 per share. The conversion price on December 31, 2019 and 2018 were NT\$33.8 and 34.9 respectively.

(2) The Company's redemption right for the aforementioned conversion of corporate bonds:

- i. The above-mentioned converted corporate bonds shall start one month after the issuance date to forty days before the expiration of the issuance period. When the price reaches more than 30% (inclusive), the Company may notify the creditors within 30 business days thereafter to recover the principal bond of the bond holder in cash according to the denomination of the bond.
- ii. From the day following one month after the issuance of the converted corporate bond to forty days before the expiration of the issuance period, if the outstanding balance in circulation is less than 10% of the original

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issuance amount, the Company may notify the creditors at any time thereafter. The face value of the bond is recovered in cash to the bond holder's principal bond.

When the Company issues the above-mentioned converted corporate bonds, it separates the share options and liabilities, and separately recognizes equity and liabilities. The breakdown is as follows:

<u>Item</u>	<u>Amount</u>
Converted corporate bond issuance	\$ 300,000
Fair value of embedded non-equity derivatives at the time of issuance	180
Issue cost	(5,307)
Fair value of corporate bonds at the time of issuance	<u>(279,243)</u>
Equity composition items - stock options (listed in the capital reserve - stock options)	<u><u>\$ 15,630</u></u>

After separating the above-mentioned embedded derivative instruments, the effective interest rate of the Company's first unsecured conversion of corporate bonds was 2.38%.

The Company's first unsecured conversion of corporate bonds matured on March 1, 2020, and the OTC trading was terminated on the next business day after the due date. According to Article 6 of the relevant issuance and conversion regulations, the Company will repay the converted corporate bonds in cash at a time according to the remaining bond denomination.

Please refer to Note 6 (18) for the first unsecured conversion of corporate bonds into ordinary shares in 2019 and 2018.

2. The Company issued the second domestic unsecured conversion of corporate bonds on April 27, 2018. The issuance period is three years. The relevant information in the financial statements is as follows:

	<u>2019.12.31</u>	<u>2018.12.31</u>
Total amount of issuing convertible corporate bonds	\$ 250,000	250,000
Less: unamortized payable corporate bond discount	<u>(6,577)</u>	<u>(11,715)</u>
Payable corporate bond balance at the end of the period	<u><u>\$ 243,423</u></u>	<u><u>238,285</u></u>
Embedded derivatives - redemption rights (presented in financial assets measured at fair value through profit or loss-current)	<u><u>\$ -</u></u>	<u><u>50</u></u>
	<u>2019</u>	<u>2018</u>
Embedded derivatives - redemption rights and losses remeasured at fair value (reported on financial asset evaluation losses (interests))	<u><u>\$ 50</u></u>	<u><u>475</u></u>
Interest expense	<u><u>\$ 5,138</u></u>	<u><u>3,782</u></u>

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Notes to the Consolidated Financial Report (continued)

The significant terms of the issuances are as follows:

(1) Conversion price and adjustments:

April 19, 2018 is set as the conversion price base date, and the simple arithmetic average of the closing prices of the common shares of the first, third, and fifth business days of the Company before (excluding) the base day is chosen as the base price before multiplying the base price by 103.38% premium rate to calculate the basis. (Calculated to the NTD jiao and rounded up cent). In the case of ex-equity or ex-dividend before the base date, the closing price of the conversion price to be calculated by sampling shall be the price after deducting equity or dividend; the conversion price shall be adjusted according to the conversion price adjustment formula in case of ex-dividend or ex-dividend from the date of decision to the actual date of issue. The conversion price at the time of issuance was NT\$63 per share. The conversion price on December 31, 2019 and 2018 were NT\$58 and 59.9 respectively.

(2) The Company's redemption right for the aforementioned conversion of corporate bonds:

- i. The above-mentioned converted corporate bonds shall start one month after the issuance date to forty days before the expiration of the issuance period. When the price reaches more than 30% (inclusive), the Company may notify the creditors within 30 business days thereafter to recover the principal bond of the bond holder in cash according to the denomination of the bond.
- ii. From the day following one month after the issuance of the converted corporate bond to forty days before the expiration of the issuance period, if the outstanding balance in circulation is less than 10% of the original issuance amount, the Company may notify the creditors at any time thereafter. The face value of the bond is recovered in cash to the bond holder's principal bond.

When the Company issues the above-mentioned converted corporate bonds, it separates the share options and liabilities, and separately recognizes equity and liabilities. The breakdown is as follows:

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Notes to the Consolidated Financial Report (continued)

Item	Amount
Converted corporate bond issuance	\$ 250,000
Fair value of embedded non-equity derivatives at the time of issuance	525
Issue cost	(4,196)
Fair value of corporate bonds at the time of issuance	(234,504)
Equity composition items - stock options (listed in the capital reserve - stock options)	\$ 11,825

After separating the above-mentioned embedded derivative instruments, the effective interest rate of the Company's second unsecured conversion of corporate bonds was 2.13%.

(XIV) Lease liabilities

The carrying amount of the consolidated company's lease liability is as follows:

	2019.12.31
Current liability	\$ 6,113
Non-current	\$ 13,739

For maturity analysis, please refer to Note 6 (23) Financial Instruments.

The amount recognized in profit or loss is as follows:

	2019
Interest expense on lease liability	\$ 230
Expense for leases of low-value items	\$ 75

The amounts recognized in the statements of cash flows are:

	2019
Total cash outflow for lease	\$ 6,032

1. Leasing of houses and buildings

The consolidated company leased houses and buildings as office premises and factory buildings on December 31, 2019 with the period of 1 to 5 years. Some leases include the option to extend for the same period when the lease expires.

Some of the above-mentioned leases include the option to extend. These leases are managed by each region, so the individual terms and conditions agreed are different within the consolidated company. These options are only enforceable by the consolidated company rather than the lessor. Where it is not possible to reasonably determine that the optional lease extension will be exercised, the payment related to the period covered by the option is not included in the lease liability.

2. Other leases

The lease period of the office premises of the consolidated company's lease is two years. These leases are for low-value items, and the consolidated company chooses to apply the exemption recognition requirement instead of recognizing their right-of-use assets and lease liabilities.

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(XV) Operating lease

Tenant lease

The payable rent for non-cancellable operating lease is as follows:

	2018.12.31
Within one year	\$ 5,299
1-5 years	12,377
	\$ 17,676

(XVI) Employee benefits

The consolidated company allocates 6% of each employee's monthly wages to the personal labor pension account at the Bureau of Labor Insurance, Ministry of Labor in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the consolidated company allocates a fixed amount to the Bureau of Labor Insurance, Ministry of Labor without additional legal or constructive obligation. The consolidated company's pension costs under the defined contribution plan were NT\$3,170,000 NT\$2,956,000 for 2019 and 2018, respectively.

In addition, the pension expenses recognized by the foreign subsidiaries in 2019 and 2018 in accordance with relevant local laws and regulations were NT\$709,000 and NT\$790,000 respectively.

(XVII) Income tax

1. Income tax expense

The amount of the consolidated company's income tax expenses is as follows:

	2019	2018
Current income tax expense (benefit)		
Current period	\$ 53,192	81,420
Adjustment for prior period	324	(515)
	53,516	80,905
Deferred income tax expense (benefit)		
Origination and reversal of temporary differences	(385)	(6,253)
Adjustment in tax rate	-	(3,171)
	(385)	(9,424)
Current income tax expenses	\$ 53,131	71,481

2. The amount of income tax expense (benefit) recognized in other comprehensive income was as follows:

	2019	2018
Exchange differences on translation of foreign financial statements	\$ 13,661	4,088
Effect of exchange rate changes	-	1,380
	\$ 13,661	5,468

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Notes to the Consolidated Financial Report (continued)

3. The reconciliation of income tax expenses and income before income tax was as follows:

	2019	2018
Profit before income tax	\$ 192,202	253,824
Income tax at the Company's domestic tax rate	38,440	50,765
Effect of different tax rates in foreign jurisdictions	16,232	28,528
Change in income tax rate	-	(3,171)
Additional tax on undistributed earnings	3,913	446
Permanent difference and others	(5,778)	(11,073)
Over (under)-provision in prior periods	324	5,986
Total	\$ 53,131	71,481

4. Deferred tax assets and liabilities

As of December 31, 2019 and 2018, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company plans to use undistributed earnings for permanent investment rather than distribution. The amounts are as follows:

	2019.12.31	2018.12.31
Undistributed earnings from subsidiaries	\$ 486,132	440,756
Unrecognized deferred tax liabilities	\$ (97,226)	(88,151)

5. Recognized deferred tax assets (liabilities)

Deferred income tax assets

	2018.1.1	Debit (credit) balance sheet	Debit (credit) other comprehe nsive income statement	2018.12.31	Debit (credit) balance sheet	Debit (credit) other comprehe nsive income statement	2019.12.31
Loss for market price decline and obsolete and slow-moving inventories	\$ 356	(63)	-	419	(300)	-	719
Unrealized expenses	10,554	2,061	-	8,493	(10,575)	-	19,068
Unrealized profit between associates	3,424	(15,243)	-	18,667	15,834	-	2,833
Financial statements translation differences of foreign operations	7,822	-	(5,468)	13,290	-	(13,661)	26,951
Unrealized exchange loss	3,085	3,085	-	-	(4,689)	-	4,689
Other	547	(9)	-	556	90	-	466
	\$ 25,788	(10,169)	(5,468)	41,425	360	(13,661)	54,726

Deferred income tax liabilities

	2018.1.1	Debit (credit) balance sheet	Debit (credit) other comprehe nsive income statement	2018.12.31	Debit (credit) balance sheet	Debit (credit) other comprehe nsive income statement	2019.12.31
Unrealized exchange gains	\$ -	745	-	(745)	(745)	-	-

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Notes to the Consolidated Financial Report (continued)

6. The ROC income tax authorities have examined the Company's income tax returns through 2017.

(XVIII) Capital and other equity interest

1. Shares

As of December 31, 2019 and 2018, the authorized capital of the Company amounted to \$2,000,000,000, of which included the amount of \$60,000,000 reserved for employee share options; the issued capital amounted to \$845,011,000 and \$844,419,000, respectively at \$10 per share.

The reconciliation for outstanding shares is as follows (expressed in thousand shares):

	Ordinary shares	
	2019	2018
Balance as of January 1	83,514	73,595
Treasury stock repurchase	(330)	(928)
Conversion of convertible corporate bonds	60	5,167
Issuance of common stock for cash	-	5,500
Transfer of treasury stock to employees	1,258	180
Balance as of December 31	84,502	83,514

In 2019, the Company issued 60,000 new shares due to the conversion rights of convertible corporate bonds exercised by holders. The shares were issued in denominations with a total amount of NT\$592,000,000. The statutory registration process for the aforementioned issuance of new shares has not yet been completed. The new shares were listed as pre-received share capital on December 31, 2019. The Company issued 2,905,000 new shares due to the conversion of convertible corporate bonds on December 31, 2017. Since the legal registration procedure has not been completed, the total pre-received capital was NT\$29,046,000 on December 31, 2017. As of December 31, 2018, all of the shares have been converted into ordinary share capital. In addition, from January 1 to December 31, 2018, 5,167,000 new shares were issued due to the conversion of convertible corporate bonds, and the legal registration procedure has been completed.

The net increase in capital reserves due to the conversion of corporate bonds in 2019 and 2018 was NT\$1,389,000 and NT\$127,853,000 respectively.

The Company approved an issuance of 5,500,000 thousand shares on February 27, 2018 by the Board of Directors. The issued price of NT\$48 per share was approved by the Board of Directors on April 19, 2018 with the legal registration procedures completed. In addition, the Company recognizes that the remuneration cost of subscription reserved for employees as NT\$7,624,000.

In order to replenish the working capital, repay bank loans and facilitate future development of new strategic businesses and technologies, the Company decided on a private offering within 30,000,000 shares at the shareholders' meeting on

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

February 26, 2018. The issued price was NT\$10 per share, and the Board has been authorized to execute the offering in two closings. The aforesaid private placement will expire on June 25, 2019. The amount that has not been completed on the day before the shareholders' general meeting on June 18, 2019 will be cancelled on June 19, 2019.

2. Capital surplus

	2019.12.31	2018.12.31
Share premium	\$ 320,766	320,766
Issuance of common stock for cash and retained employee compensation	7,852	7,852
Subscription right to corporate bonds	11,935	12,039
Treasury stock transactions	3,642	3,642
Corporate bonds converted to premium of ordinary shares	216,605	215,112
	\$ 560,800	559,411

In accordance with the Company Act, the capital surplus generated from the premium of stock issuance and donation may only be used to offset accumulated deficits. In addition, when the Company incurred no deficit, such capital surplus may be distributed as cash or stock dividends. Pursuant to the R.O.C. Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of the capital surplus capitalized per annum shall not exceed 10% of the paid-in capital.

3. Retained earnings

(1) Legal reserve

Pursuant to the Company Act, the appropriation for legal reserve shall be made until the reserve equals the Company's paid-in capital. If the Company incurs no loss, the reserve may be distributed as cash or stock dividends for the portion in excess of 25% of the paid-in capital

(2) Special reserve

By choosing to apply exemptions granted under IFRS 1 during the Company's first-time adoption of the IFRSs endorsed by the FSC, cumulative translation adjustments under shareholders' equity shall be reclassified as retained earnings at the adoption date. The increase in retained earnings occurring before the adoption date due to the first-time adoption of the IFRSs endorsed by the FSC amounted to NT\$6,954,000. In accordance with Ruling No.1010012865 issued by the FSC, the net increase of NT\$6,236,000 in retained earnings due to the first-time adoption of the IFRSs endorsed by the FSC shall be reclassified as a special reserve during earnings distribution, and when the relevant asset is used, disposed of, or reclassified, this special reserve shall be reversed as distributable earnings proportionately. The carrying amount of special reserve amounted to

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NT\$6,236,000 as of December 31, 2019.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special reserve resulting from the first time adoption of the IFRSs endorsed by the FSC and the carrying amount of other shareholders' equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption of the IFRSs endorsed by the FSC. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

(3) Earnings distribution

According to the Company's Articles of Incorporation, if the Company shows a year-end profit, it shall firstly make up any accumulated losses. Thereafter, a 10% appropriation of the remaining amount shall be set aside for legal reserve, unless the amount in the legal reserve is already equal to or greater than the total paid-in capital. Thereafter, an amount shall be set aside or reversed as a special reserve in accordance with related laws, regulations, or provisions of the competent authorities. Distribution of the remaining profit after setting aside the above-mentioned amounts, together with the balance of the unappropriated retained earnings of the previous year as dividends to shareholders, to be proposed by the Board of Directors to be approved at the shareholders' meeting.

The Company operates in an industry with rapid changes, intensive capital and technologies, and the Company is in a life cycle is in a stage of stable growth. Therefore, it is necessary to retain surplus needed for operational growth and investment. For the moment, the residual dividend policy is adopted. The distribution of shareholder dividends, in cash or stock forms, shall not be lower than 10% of the distributable surplus of the year. The cash dividends shall be no lower than 10% of the total.

The following are the appropriation of earnings in the two decent years which were approved during the shareholders' meeting held on June 19, 2019 and June 26, 2018, respectively:

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	2018		2017	
	<u>Dividends per share</u>	<u>Amount</u>	<u>Dividends per share</u>	<u>Amount</u>
Dividends distributed to ordinary shareholders:				
Cash (\$)	\$0.98510218	<u>83,184</u>	1.86842758	<u>156,208</u>

The appropriation of retained earnings is consistent with the resolutions approved by the Board of Directors. The appropriation of earnings in 2019 will be presented for resolution in the Board of Directors' meeting and to be approved in annual shareholders' meeting. The information will be available on the Market Observation Post System website.

4. Treasury stocks

The Company offers treasury stocks and buys back shares from the Taiwan Stock Exchange. The increase/decrease caused by the buyback are listed as follows:

Unit: 1,000 shares

Reason for redemption	2019				
	<u>Opening number of shares</u>	<u>Increase in the period</u>	<u>Transfer in the period</u>	<u>Write-off during the period</u>	<u>Closing number of shares</u>
Transfer to employees	<u>928</u>	<u>330</u>	<u>(1,258)</u>	<u>-</u>	<u>-</u>

Reason for redemption	2018				
	<u>Opening number of shares</u>	<u>Increase in the period</u>	<u>Transfer in the period</u>	<u>Write-off during the period</u>	<u>Closing number of shares</u>
Transfer to employees	<u>2,500</u>	<u>928</u>	<u>(180)</u>	<u>(2,320)</u>	<u>928</u>

In accordance with the provisions of Securities and Exchange Act, the repurchase rate of shares by the Company shall not exceed 10% of total number of shares, and the total amount of repurchased shares shall not exceed the amount of retained earnings plus share premium and realized capital reserve. The shares bought back by a company shall not be pledged. Before transfer, the shareholder's rights shall not be enjoyed.

The Company has transferred all treasury shares to employees in 2019. As the transfer price is higher than the fair market price, no remuneration cost has been recognized.

The remuneration cost recognized by the Company for the transfer of treasury shares to employees in 2018 was NT\$3,642,000.

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(XIX) Earnings per share

	<u>2019</u>	<u>2018</u>
Basic earnings per share:		
Net income attributable to the Company	<u>\$ 139,071</u>	<u>182,343</u>
Weighted-average number of ordinary shares (in thousands)	<u>83,959</u>	<u>81,410</u>
Basic earnings per share (NT\$)	<u>\$ 1.66</u>	<u>2.24</u>
Diluted earnings per share:		
Net income attributable to the Company	\$ 139,071	182,343
Interest expense for convertible corporate bonds	4,110	3,482
Net income attributable to share capital of common shares	<u>\$ 143,181</u>	<u>185,825</u>
Weighted-average number of ordinary shares (in thousands)	83,959	81,410
Effect of potential diluted ordinary shares:		
Effect of employee stock remuneration	549	791
Convertible bonds payable	4,310	2,653
Weighted-average number of ordinary shares (in thousands) (diluted)	<u>88,818</u>	<u>84,854</u>
Diluted earnings per share (NT\$)	<u>\$ 1.61</u>	<u>2.19</u>

(XX) Revenue from contracts with customers

	<u>2019</u>	<u>2018</u>
Revenues from major regional markets:		
China	\$ 1,967,714	2,018,823
Taiwan	33,303	22,645
Others	1,824	1,352
	<u>\$ 2,002,841</u>	<u>2,042,820</u>
Revenue from major products:		
Coiled conductive polymer solid capacitors	1,775,810	1,847,790
Chip-type conductive polymer solid state appliances	227,031	195,030
	<u>\$ 2,002,841</u>	<u>2,042,820</u>

(XXI) Remuneration to employees and directors

The Company's Articles of Incorporation provide that if there is profit in the year, no lower than 8% of the profit shall be allocated for employee compensation, and no higher than 3% shall be allocated for remuneration to Directors and Supervisors. However, the profit shall first be used to offset against any deficit. Employees of controlled companies who meet specific requirements can also be included in the stock or cash remuneration distribution.

The remunerations to employees amounted to NT\$16,437,000 and NT\$20,597,000, as well as the remunerations to directors amounted to NT\$4,834,000 and NT\$6,058,000 for the years ended December 31, 2019 and 2018, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the percentage which is stated under the Company's Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholders' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. If remuneration to employees is

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
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resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares on the day preceding the Board of Directors' meeting.

The amounts allocated for remunerations to employees and directors and supervisors for 2018 were NT\$20,597,000 and NT\$6,058,000 respectively, which bear no difference from the board resolutions. Relevant information can be inquired from the Market Observation Post System (MOPS).

(XXII) Non-operating income and expenses

1. Other gains and losses, net

	2019	2018
Dividend income	8,873	2,220
Impairment loss on financial assets	(52)	(432)
Gain (loss) on disposal of property, plant and equipment	(1,410)	52
Subsidy income	6,425	11,713
Other	(2,315)	(1,393)
Other gains and losses, net	\$ 11,521	12,160

2. Finance costs

	2019	2018
Interest expense – bonds payable	\$ 5,226	4,353
Interest expense – borrowings	20,500	21,633
Interest expense – lease obligations payable	230	-
	\$ 25,956	25,986

(XXIII) Financial instruments

1. Credit risk

(1) Maximum credit risk exposure

The carrying amount of financial assets and contract assets represents the maximum amount of credit risk exposure.

(2) Credit risk concentration

The consolidated company's customers are concentrated in industries such as consumer electronics, computer peripherals and wireless communication and so on. To reduce the credit risk of the accounts receivable, the consolidated company continuously assesses the customers' financial position and regularly evaluates the possibility of the collection of accounts receivable, as well as making allowances for loss. 42% and 42% of accounts receivable balances for the years ended on December 31, 2019 and 2018 respectively, were composed of five customers. This causes credit risk concentration.

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(3) Credit risk of accounts receivable and debt securities

Please refer to Note 6 (4) for credit risk exposure of accounts receivable.

Other financial assets measured at amortized cost, including accounts receivable from related parties and fixed deposit certificates, have not declared impairment loss.

The above-mentioned financial assets have low credit risk, so the allowance loss is measured based on the amount of twelve-month expected credit loss the period (please refer to Note 4 (7) for details on how the consolidated company determines the level of credit risk).

2. Liquidity risk

The following table shows the contractual maturity analysis of financial liabilities (including the impact of interest payable):

	<u>Carrying amount</u>	<u>Contract cash flow</u>	<u>Less than 6 months</u>	<u>6-12 months-</u>	<u>More than 12 months</u>
December 31, 2019					
Non-derivative financial liabilities					
Short-term borrowings	\$ 924,840	927,628	927,628	-	-
Accounts payable (including related parties)	312,146	312,146	312,146	-	-
Payables on equipment	14,419	14,419	2,770	11,649	-
Lease liabilities (including current and non-current)	<u>19,852</u>	<u>20,274</u>	<u>3,192</u>	<u>3,117</u>	<u>13,965</u>
	<u>\$ 1,271,257</u>	<u>1,274,467</u>	<u>1,245,736</u>	<u>14,766</u>	<u>13,965</u>
December 31, 2018					
Non-derivative financial liabilities					
Short-term borrowings	\$ 1,103,585	1,113,398	1,020,245	93,153	-
Accounts payable	187,682	187,682	187,682	-	-
Payables on equipment	54,458	54,458	27,312	27,146	-
	<u>\$ 1,345,725</u>	<u>1,355,538</u>	<u>1,235,239</u>	<u>120,299</u>	<u>-</u>

3. Currency risk

(1) Exposure to exchange rate risk

The consolidated company's financial assets and liabilities exposed to exchange rate risk were as follows:

	<u>2019.12.31</u>			<u>2018.12.31</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 34,796	29.98	1,043,184	23,048	30.715	707,919
RMB	54,101	4.2975	232,499	77,215	4.4753	345,560
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	10,427	29.98	312,601	20,571	30.715	631,838

(2) Sensitivity analysis

The consolidated company'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, short-term borrowings, accounts payable and other payables, and other accrued expenses that are denominated in foreign currency. A fluctuation in the TWD/USD and

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TWD/RMB exchange rates on December 31, 2019 and 2018, with other factors remaining constant, would have influenced the net profit for the years ended December 31, 2019 and 2018 as illustrated below:

	Range of the fluctuations	2019	2018
TWD exchange rate	1% depreciation against USD	\$ <u>5,845</u>	<u>609</u>
	1% appreciation against USD	\$ <u>(5,845)</u>	<u>(609)</u>
	1% depreciation against RMB	\$ <u>1,860</u>	<u>2,764</u>
	1% appreciation against RMB	\$ <u>(1,860)</u>	<u>(2,764)</u>

(3) Foreign exchange gains (losses) on monetary items

Due to the variety of the functional currencies of the consolidated company's entities, the consolidated company's foreign exchange losses (realized and unrealized) on monetary items are summarized as having amounted to NT\$8,436,000 and NT\$1,834,000 for the years ended December 31, 2019 and 2018, respectively.

4. Interest rate analysis

The consolidated company's interest rate exposure regarding its financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the exposure to interest rate risk of the non-derivative instruments on the reporting date. For variable-rate instruments, the sensitivity analysis assumes the variable-rate liabilities are outstanding for the whole year on the reporting date. The exposure to changes in interest rates (assuming all other variables are constant) would have influenced the comprehensive income for the years ended December 31, 2019 and 2018, as illustrated below:

	Range of the fluctuations	2019	2018
Annual interest rate	Increase of 1%	\$ <u>(7,399)</u>	<u>(8,829)</u>
	Decrease of 1%	\$ <u>7,399</u>	<u>8,829</u>

5. Other market price risk

If the equity securities price changes on the reporting date (adopting the same basis of analysis for both periods, with the assumption that other variable factors remain unchanged), the impact on the comprehensive gain or loss items are as follows:

	2019		2018	
	Other	Profit for the	Other	Profit for the
Securities price on reporting date	comprehensive gain or loss, net of tax	year	comprehensive gain or loss, net of tax	year
Increase of 1%	\$ 2,612	-	3,646	-
Decrease of 1%	(2,612)	-	(3,646)	-

6. Fair value of financial instruments

(1) Categories of financial instruments and fair value

Financial assets and liabilities measured at fair value through profit and loss

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Notes to the Consolidated Financial Report (continued)

(5) Reconciliation of level 3 fair values:

	Financial asset measured at fair value through measured at fair value through other comprehensive income - equity investments without an active market
Balance as of January 1, 2019	\$ 121,084
Disposals	(7,500)
Total gains and losses	
Recognized in other comprehensive income	3,765
Balance as of December 31, 2019	\$ 117,349

	Financial asset measured at fair value through measured at fair value through other comprehensive income - equity investments without an active market-
Balance as of January 1, 2018	\$ -
Effect of retrospective application	61,432
Purchase	56,150
Total gains and losses	
Recognized in other comprehensive income	3,502
Balance as of December 31, 2018	\$ 121,084

Resulting from the recognized total gains and losses above, the gains from financial assets measured at fair value through other comprehensive income and loss as of December 31, 2019 and 2018 amounted to NT\$8,349,000 of gains and NT\$2,916,000 in losses.

(6) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The consolidated company classified the financial assets measured at fair value through other comprehensive income and loss – non-current as recurring level 3 fair values in the fair value hierarchy due to the use of significant unobservable inputs. The significant unobservable inputs are independent, therefore, there is no correlation between them. Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial asset measured at fair value through other comprehensive income - non-current (equity investments without an active market)	Net asset valuation method	· Net asset value · Discount for lack of marketability (10% and 20% as of years ended on December 31, 2019 and 2018)	· N/A The higher the discount for lack of marketability, the lower the fair value.
Financial asset measured at fair value through other	Market approach	· Price-equity ratio (3.39 for 12/31/2019, 4.57 and 2.23 for	· The higher the price-equity ratio, the higher the fair value.

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Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
comprehensive income - non-current (equity investments without an active market)		12/31/2018) Discount for lack of marketability (as of years ended on December 31, 2019 and 2018)	The higher the discount for lack of marketability, the lower the fair value.

(XXIV) Financial risk management

1. Overview

The consolidated company is exposed to the following risks due to usage of financial instruments:

- (1) Credit risk
- (2) Liquidity risk
- (3) Market risk

This note presents information about the consolidated company's exposure to each of the above risks, the consolidated company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

2. Risk management framework

The Board of Directors is solely responsible for overseeing the risk management of the consolidated company. The consolidated company's risk management policies are formulated to identify and analyze the risks faced by the consolidated company, 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 changes market conditions and the consolidated company's activities.

The financial management department of the Company provides services to the business units, coordinates the operation of the domestic financial market, and supervises and manages financial risks related to the operation of the consolidated company by analyzing the internal risk reports of the risks according to the level and scope of risks. These risks include credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other market price risks).

3. Credit risk

The main credit risk the consolidated company faces is caused by the potential impact of the counterparty or other party of the financial asset transaction failing to meet its contractual obligations. The consolidated company deposits its cash in creditworthy banks with low credit risk.

The main credit risk arises from financial products derived from cash and

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

accounts receivable. The consolidated company deposits its cash in various financial institutions. The consolidated company controls exposure to the credit risk of each financial institution and believes that there is no concentration of significant credit risk for the cash.

The credit risk exposure of the consolidated company is influenced by the conditions of each individual customer. The management also considers the statistical data on the basis of consolidated company customers, including the default risk of industry and country, as these factors play a role in credit risk. To lower credit risk, management of the consolidated company appoints a dedicated team to make decisions on credit limits, credit approval and other monitoring procedures to ensure that appropriate actions are taken to recover overdue receivables. In addition, the consolidated company reviews the recoverable amount of all accounts receivable on the balance sheet dates to ensure that impairment loss is recognized for unrecoverable accounts receivable.

The consolidated company did not provide any endorsements or guarantees to parties other than the subsidiaries for years ending on December 31, 2019 and 2018.

4. Liquidity risk

Liquidity risk is the risk that the consolidated company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The method of the consolidated company adopts for managing liquidity lies in ensuring sufficient working capital to pay for due liabilities under normal and pressing circumstances so as to avoid unacceptable losses or risk of damage to goodwill. The consolidated company supports business operations and reduces cash flow fluctuation through appropriate management and the maintenance of sufficient cash. The consolidated company's management supervises bank financing conditions and ensures compliance with loan contracts.

5. Market risk

Market risk refers to the risk of the value of revenue or held financial instruments being influenced by market price changes, such as exchange rate and interest rate. The objective of market risk management lies in optimizing the investment return by controlling the market risk exposure within the bearable scope.

1. Currency risk

The consolidated company is exposed to currency risk arising out of sales, procurement and loan transaction through functional currency valuation from its entities. The main valuation currencies for these types of transactions includes NTD, RMB and USD.

Loan interest is denominated in the currency of the loan. Generally speaking,

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Notes to the Consolidated Financial Report (continued)

the currency of the loan is the same as the currency of the cash flow generated by the operation of the consolidated company, which is mainly NTD and USD. This provides economic hedging without signing derivatives, so hedging accounting is not adopted.

For monetary assets and liabilities denominated in other foreign currencies, when a short-term imbalance occurs, the consolidated company purchases or sells foreign currencies at the real-time exchange rate to ensure that net risk exposure remains at an acceptable level.

2. Interest rate risk

The short-term borrowings of the consolidated company are debts with floating interest rates, so changes in market interest rates will cause the effective interest rate of short-term borrowings to change accordingly, leading to fluctuations in future cash flows.

(XXV) Capital management

The primary objective of the consolidated company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximize owner value.

The consolidated company operates in an industry with rapid changes, intensive capital and technologies in a life cycle is in a stage of stable growth. Therefore, it is necessary to retain surplus needed for operational growth and investment. For the moment, the residual dividend policy is adopted. The distribution of shareholder cash dividends shall not be lower than 10% of the distributable surplus of the year.

The consolidated company's management periodically reassesses the capital structure, with the scope covering capital costs of various categories and related risks. The consolidated company will distribute dividend, issue new stocks, repurchase shares, or repay old debts among other methods to balance its overall capital structure in accordance with the recommendations of its management.

The consolidated company's debt-to-adjusted-capital ratio at the reporting date was as follows:

	2019.12.31	2018.12.31
Total liabilities	\$ 1,689,126	1,793,736
Less: Cash and cash equivalents	(700,953)	(635,709)
Net liabilities	\$ 988,173	1,158,027
Total equity	\$ 1,964,987	1,946,913
Debt-to-capital ratio	50.29%	59.48%

(XXVI) Financing activities of non-cash transactions

Reconciliation of liabilities arising from financing activities of non-cash transactions for 2019 and 2018 were as follows:

1. For investment and financing activities of non-cash transaction where convertible corporate bonds are converted into ordinary shares, please refer to note 6 (13) for

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

details.

2. For obtaining right-of-use assets by lease, please refer to note 6 (8).
3. Reconciliation of liabilities arising from financing activities were as follows:

	2019.1.1	Retrospective application of new standards Adjustment	Cash flow	Non-cash changes		2019.12.3 1
				Exchange fluctuations	Other changes	
Short-term borrowings	\$ 1,103,585	-	(174,460)	-	(4,285)	924,840
First issuance of convertible corporate bonds	3,988	-	-	-	(1,893)	2,095
Second issuance of convertible corporate bonds	238,285	-	-	-	5,138	243,423
Lease liabilities	-	19,495	(5,727)	-	6,084	19,852
	\$ 1,345,858	19,495	(180,187)	-	5,044	1,190,210

	2018.1.1	Cash flow	Non-cash changes		2018.12.31
			Exchange fluctuations	Other Changes	
Short-term borrowings	\$ 663,080	426,650	13,855	-	1,103,585
First issuance of convertible corporate bonds	183,640	-	-	(179,652)	3,988
Second issuance of convertible corporate bonds	-	245,804	-	(7,519)	238,285
	\$ 846,720	672,454	13,855	(187,171)	1,345,858

VII. Related-party transactions

- (I) Name and relationship with related parties

<u>Name of related party</u>	<u>Relationship with the consolidated company</u>
AsusTek Computer Inc.	Main management of the consolidated company (Note)
Shenzhen Gather Electronics Science Co., Ltd.	Associate of the Company

Note: ince it is no longer the single major shareholder of the Company, the consolidated company has decided that it is no longer a related party on January 1, 2019, and the related transaction are no longer listed as related party transactions.

- (II) Significant related-party transactions

1. Operating revenue

	2019	2018
AsusTek Computer Inc.	\$ -	304,076
Shenzhen Gather Electronics Science Co., Ltd.	37,656	14,927
	\$ 37,656	319,003

The sales price to related parties and non-related parties is determined by the specifications of the products being sold, and some products are given discounts of varying degrees depending on the quantity sold. Therefore, the pricing strategy

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Notes to the Consolidated Financial Report (continued)

is not significantly different. The credit conditions of the related parties are from 60 days to 90 days based on the monthly statement. The credit conditions of general customers are determined by the individual client's past transaction experience and the results of debt evaluation. The range is between 60 to 150 days.

2. Purchases

	2019	2018
Shenzhen Gather Electronics Science Co., Ltd.	\$ 6,135	-

The purchase price from related parties is based on the general market price, and the payment days for general suppliers are 30 to 90 days based on the monthly statement, and 90 days for the related parties.

3. Accounts receivable from related parties

Accounting subject	Category of related parties	2019.12.31	2018.12.31
Accounts receivable	Shenzhen Gather Electronics Science Co., Ltd.	\$ 22,724	17,339
Accounts receivable	AsusTek Computer Inc.	-	67,336
		\$ 22,724	84,675

4. Accounts payables to related parties

Accounting subject	Category of related parties	2019.12.31	2018.12.31
Accounts payable	Shenzhen Gather Electronics Science Co., Ltd.	\$ 4,968	-

(III) Transactions with key management personnel

Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	\$ 25,183	28,173
Post-employment benefits	406	370
Share-based payment	-	3,724
	\$ 25,589	32,267

VIII. Pledged assets

The carrying values of the consolidated company's pledged assets are as follows:

Assets	Pledge	2019.12.31	2018.12.31
Other financial assets - non-current	Purchase guarantee, investment guarantee, etc.	\$ 25,458	26,155

IX. Significant contingent liabilities and unrecognized contractual commitments: None

X. Significant Casualty Loss: None.

XI. Material Subsequent Events: None

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

XII. Other

The following is the summary statement of current-period employee benefits and depreciation expenses by function:

By function By nature	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	181,618	125,513	307,131	98,419	131,755	230,174
Labor and health insurance	476	6,504	6,980	403	6,085	6,488
Pension	477	3,402	3,879	506	3,240	3,746
Others	3,016	6,519	9,535	2,351	5,947	8,298
Depreciation	162,080	22,338	184,418	118,394	14,411	132,805
Amortization	74	4,285	4,359	46	5,106	5,152

XIII. Supplementary disclosures

(I) Significant transactions

Relevant information about significant transactions to be disclosed by the consolidated company in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers is as follows:

1. Capital loaned to others

No.	Lending company	Borrower	Transaction account	Related party	Maximum outstanding balance in current period	Ending balance	Actual expenditure	Interest range	Nature of loan	Business transaction amount	Reason for short-term financing	Listed allowances for losses	Collateral Name	Collateral Value	Limit on loans granted to a single party	Total limit on loans
0	The Company	Apaq Wuxi	Other accounts receivable - related party	Yes	474,000	449,700	119,920	2.896%	Short-term financing	1,406,071	Business transaction	-	-	-	785,995	785,995

Note 1. For a company or firm that has business dealings with the Company, the amount permitted to a single borrower is limited to the amount of business transactions between the parties.

Note 2. The Company's accumulated capital loans and total amount are limited to 40% of the amount of the Company's latest consolidated financial statements that have been verified (reviewed) by an accountant and attributable to the shareholders of the parent company.

2. Endorsement or guarantee for others

No.	Endorsement/guarantee provider	Subject of endorsements/guarantees		Limit on endorsements/guarantees provided for a single party	Maximum balance for this period	Endorsement and guarantee closing balance	Actual Expenditure	Amount of endorsement/guarantee collateralized by properties	Ratio of accumulated endorsement/guarantee to net equity per latest financial statements	Maximum endorsement/guarantee amount allowable	Guarantee provided by parent company	Guarantee provided by a subsidiary	Guarantee provided to subsidiaries in Mainland China
		Name	Relationship										
0	The Company	Apaq Wuxi	Subsidiary	1,964,987	474,000	449,700	89,940	-	22.89%	1,964,987	Y	N	Y

Note 1. The amount of endorsement/guarantee for a single entity is limited to the amount of the Company's most recent consolidated financial statements audited by the CPA attributable to the parent company's owner's equity.

Note 2. The total amount of guarantee/endorsement is limited to the amount of the Company's most recent consolidated balance sheet that has been audited by the CPA and vested in the parent company's owner's equity.

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

3. Holding of negotiable securities at the end of the period (excluding the part of invested affiliated companies, associates and joint ventures equity):

Holding company	Type and name of securities	Relationship with the issuer of the securities	Financial statement item	End of period				Remarks
				Number of shares	Carrying amount	%	Fair value	
The Company	Walton Chaintech Corporation	None	Financial asset measured at fair value through other comprehensive profit and loss - current-	4,710	143,891	4.64%	143,891	
The Company	Foxfortune Technology Ventures Limited	None	Financial asset measured at fair value through other comprehensive profit and loss - non-current-	1,000	42,551	5.80%	42,551	
The Company	Inpaq Korea	None	Financial asset measured at fair value through other comprehensive profit and loss - non-current-	18	701	10.73%	701	
The Company	Chia-Lin Venture Capital Co., Ltd.	None	Financial asset measured at fair value through other comprehensive profit and loss - non-current-	2,000	20,125	3.64%	20,125	
The Company	Kuan Kun Electronic Enterprise Co., Ltd.	None	Financial asset measured at fair value through other comprehensive profit and loss - non-current-	3,770	49,468	5.39%	49,468	
The Company	AICP Technology Corporation	None	Financial asset measured at fair value through other comprehensive profit and loss - non-current-	240	4,504	3.20%	4,504	

4. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
5. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: None
6. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None
7. The amount of purchase and sales with related party to reach NT\$ 100 million or over 20% of actually received capital:

Company Name	Name of the counterparty	Relationship	Transaction details				Situation and reason of why transaction conditions are different from general transactions		Notes/ accounts receivable or payable		Remarks
			Purchases/sales	Amount	Ratio of total purchase (sales)	Loan period	Unit price	Loan period	Balance	Ratio to total amount of notes/accounts receivable or payable	
The Company	Apaq Wuxi	Subsidiary	Purchases	1,406,071	65%	60 days	-	Note 1	368,526	98.00%	

Note 1. The payment period of general suppliers ranges from 30 days to 90 days on the monthly statement, and the payment period for Apaq Wuxi is 60 days.

Note 2. Related transactions and closing balances have been eliminated from the consolidated financial statements.

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

8. The receivables from related party to reach NT\$ 100 million or 20% of actually received capital amount:

Company Name	Name of the counterparty	Relationship	Balance of accounts receivable from related parties	Turnover rate	Overdue accounts receivable from related parties		Amount of related party of account receivable collected after the period (Note 2)	Listed allowances for losses
					Amount	Action taken		
The Company	Apaq Wuxi	Subsidiary	155,171 (Note 1)	-	-	-	29,077	-

Note 1. Including other accounts receivable arising from sales and loan of funds.

Note 2. As of March 24, 2020.

Note 3. Related transactions and closing balances have been eliminated from the consolidated financial statements.

9. Trading in derivative financial instruments: Please refer to Notes 6 (2).
 10. Parent-subsidiary company business relation and significant transactions:

No.	Name of the trader	Name of the transaction counterparty	Relationship with the trader	Conditions of transactions			
				Items	Amount	Terms of transaction	Ratio accounted for in consolidated revenues or total assets
0	The Company	Apaq Wuxi	Parent company to a subsidiary	Purchases	1,406,071	60 days	70%
0	The Company	Apaq Wuxi	Parent company to a subsidiary	Sales	70,663	60 days	4%
0	The Company	Apaq Wuxi	Parent company to a subsidiary	Accounts receivable	32,283	-	1%
0	The Company	Apaq Wuxi	Parent company to a subsidiary	Accounts payable	368,526	-	10%
0	The Company	Apaq Wuxi	Parent company to a subsidiary	Other receivables	122,888	-	3%

(II) Information on reinvestments:

Information on reinvestments is as follows (excluding investees based in Mainland China):

Investor company	Name of investees	Location	Primary business activities	Initial investment amount		Shares held at the end of the period			Highest during the period Ownership	Net profit (loss) of the investee	Investment income (loss) recognized by the Company	Remarks
				End of the period	End of last year	Shares	Ratio	Carrying amount				
The Company	APAQ Samoa	Samoa	Holding company	1,288,569	1,116,306	41,504	100.00%	1,639,854	100.00%	45,376	117,313	Note 1

Note 1. The recognized profit (loss) from investment includes the adjustment of counter-current transactions between associates.

Note 2. Related transactions and closing balances have been eliminated from the consolidated financial statements.

(III) Information on Investments in Mainland China:

1. Information on reinvestments in Mainland China

Investee in Mainland China	Main business activities	Paid-in capital (Note 4)	Investment method	Accumulated amount of remittance from Taiwan to Mainland China in the beginning of the period	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the period		Accumulated amount of remittance from Taiwan to Mainland China at the end of the period	Net profit (loss) of the investee	Ownership held by the Company (direct or indirect)	Maximum investment ratio during the period	Investment gains (losses) recognized in the current period	Carrying amount of investment	Ending balance of accumulated inward remittance of earnings	Remarks
					Amount remitted (Note 4)	Amount remitted back to Taiwan								
Apaq Wuxi	Production and sales of electronic components, etc.	1,160,226 (USD 38,700,000)	Note 1	1,049,874 (USD 33,700,000)	153,849 (USD5,000,000)	-	1,203,723 (USD 38,700,000)	50,989	100.00%	100.00%	50,989 Note 3	1,594,284	-	
Shenzhen Gather Electronics Science Co., Ltd.	Production and sales of electronic components, etc.	42,975 (RMB10,000,000)	Note 1	44,898 (RMB 9,800,000)	-	-	44,898 (RMB 9,800,000)	3,620	35.00%	35.00%	1,227 Note 3	45,174	-	
Apaq Hubei	Production and sales of electronic components, etc.	14,990 (USD 500,000)	Note 2	-	15,590 (USD 500,000)	-	15,590 (USD 500,000)	2,480	100.00%	100.00%	2,480 Note 3	17,661	-	

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

2. Limits on reinvestments in Mainland China

Accumulated investment remitted from Taiwan to Mainland China at the end of the period (Note 4)	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (Note 4)	Upper limit on investment authorized by MOEAIC
1,264,211 (USD 39,200,000 and RMB 9,800,000)	1,414,111 (USD 44,200,000 and RMB 9,800,000)	(Note 5)

Note 1. Indirect investment in Mainland companies through investments in a third area.

Note 2. Direct investment in China.

Note 3. Recognized according to the CPA audit report for the same period.

Note 4. The paid-in capital is converted to NTD at the exchange rate on the balance sheet date. The amount of investment remitted in this period is converted to NTD at previous exchange rates. The amount approved by the investment review committee of the Ministry of Economic Affairs was USD 44,200,000 and RMB 9,800,000 and converted to NTD at previous exchange rates. In addition, as of December 31, 2019, approved investments amounting to US\$5,000,000 had not been actually remitted.

Note 5. The Company obtained the certificate for the scope of operation of the issued by the Industrial Development Bureau. According to the regulations of the Investment Review Committee, there is no upper limit for the amount of investment in the Mainland.

3. Significant transactions:

Please refer to the "Significant transactions" section for direct or indirect transactions between the consolidated companies and investees in China for 2019 (which have been written off during the preparation of the consolidated financial statements).

XIV. Segment information

(I) General information

The consolidated company focuses on producing ultra-small, high temperature-resistant, long life, low impedance electrolytic capacitors and cooperates with customers to develop and manufacture high voltage capacitors, chip capacitors, organic semiconductor solid capacitors and high energy storage capacitors. It is a single operating segment. The information of the operating segment is consistent with the consolidated financial statements. Please refer to the consolidated comprehensive income statement for the income (from external customer income) and the aggregate balance sheet for segment information.

APAQ TECHNOLOGY CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Report (continued)

(II) Information on product categories

The information of revenue from external customers for the consolidated company was as follows:

	<u>2019</u>	<u>2018</u>
Coiled conductive polymer solid capacitors	\$ 1,775,810	1,847,790
Chip-type conductive polymer solid state appliances	227,031	195,030
	<u>\$ 2,002,841</u>	<u>2,042,820</u>

(III) Geographical information

The consolidated company compiled the following information with the revenue based on geographic location of customers and non-current assets based on the geographical location of assets.

	<u>2019</u>	<u>2018</u>
Revenue from external customers:		
China	\$ 1,967,714	2,018,823
Taiwan	33,303	22,645
Others	1,824	1,352
	<u>\$ 2,002,841</u>	<u>2,042,820</u>
	<u>2019.12.31</u>	<u>2018.12.31</u>
Non-current assets:		
China	\$ 1,078,616	1,166,941
Taiwan	175,368	181,763
	<u>\$ 1,253,984</u>	<u>1,348,704</u>

Note: on-current assets include property, plant and equipment, right-of-use assets, intangible assets and other non-current assets.

(IV) Major customer information

Customers accounting for more than 10% of the consolidated company's net operating revenues for the years ended December 31, 2019 and 2018 include:

	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>% of net operating revenues for the current period</u>	<u>Amount</u>	<u>% of net operating revenues for the current period</u>
AsusTek Computer Inc.	\$ 316,723	16	304,076	15
Customer G	151,587	8	227,099	11
Customer S	87,059	4	302,149	15
	<u>\$ 555,369</u>	<u>28</u>	<u>833,324</u>	<u>41</u>