

**APAQ Technology Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for
the Six Months Ended June 30, 2020
and 2019 and Independent Auditors'
Review Report**

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Independent Auditors' Review Report

To the Board of Directors of APAQ Technology Co., Ltd.

Introduction

We have reviewed the consolidated balance sheets of APAQ Technology Co., Ltd. and subsidiaries as of June 30, 2020 and 2019; the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2020 and 2019, the consolidated statements of changes in equity and consolidated statements of cash flows for the six-month periods then ended, and notes to consolidated financial statements (including summary on significant accounting policies). The 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 International Accounting Standard (IAS) 34 "Interim Financial Reporting," endorsed and issued into effect by Financial Supervisory Commission. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope

Except for matters described in the following paragraph titled "Basis for Qualified Conclusion," we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity." A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Since a review is substantially less in scope than an audit, we might not be fully aware of all material matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note VI(V) of the consolidated financial statements, investments accounted for under the equity method of APAQ Technology Co., Ltd. and subsidiaries amounted to NT\$44,743 thousand and NT\$47,109 thousand as of June 30, 2020 and 2019, respectively. The share of profits (losses) of associates accounted for under the equity method were NT\$122 thousand, NT\$1,450 thousand, NT\$403 thousand and NT\$1,212 thousand for the three months and six months then ended, respectively. Those amounts were recognized based on financial statements of the investees for the same period and have not been reviewed by independent auditors.

Qualified Conclusion

Based on our reviews, except for possible effects from financial statements of the investees mentioned in the paragraph titled "Basis for Qualified Conclusion" if they were reviewed by independent auditors, we did not discover matters which would lead us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial status of APAQ Technology Co., Ltd. and subsidiaries as of June 30, 2020 and 2019, and its consolidated financial performance for the three months and six months ended June 30, 2020 and 2019 and its consolidated cash flows for the six months then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and IAS 34 "Interim Financial Reporting" endorsed and issued into effect by Financial Supervisory Commission.

KPMG

Wan-Yuan, You

CPAs:

Qian-Hui, Lu

Securities Competent Authority : (88) Taiwan-Finance-Securities-VI-18311
Approval Document No. : Financial-Supervisory-Securities-
Auditing-1040007866

August 4, 2020

-----Disclaimer-----

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

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

(Numbers as of June 30, 2020 and 2019 are Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China)

**APAQ Technology Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
June 30, 2020, December 31, 2019 and June 30, 2019**

Unit: NTS thousands

| Assets | 2020.6.30 | | 2019.12.31 | | 2019.6.30 | | Liabilities and Equity | 2020.6.30 | | 2019.12.31 | | 2019.6.30 | |
|--|---------------------|------------|------------------|------------|------------------|------------|--|---------------------|------------|------------------|------------|------------------|------------|
| | Amount | % | Amount | % | Amount | % | | Amount | % | Amount | % | Amount | % |
| Current assets: | | | | | | | Current liabilities: | | | | | | |
| 1100 Cash and cash equivalents [Note VI(I)] | \$ 659,698 | 19 | 700,953 | 19 | 534,553 | | 152100 Short-term loans [Note VI(XI)] | \$ 754,630 | 21 | 924,840 | 25 | 866,660 | 25 |
| 1120 Financial assets at fair value through other comprehensive income - current [Note VI(II)] | 115,866 | 3 | 143,891 | 4 | 148,365 | | 2170 | | 11 | | | | |
| 1150 Notes receivable [Note VI(III)] | 48,751 | 1 | 87,461 | 2 | 29,882 | | Accounts payable | 365,719 | | 307,178 | 9 | 200,769 | 6 |
| 1170 Accounts receivable [Note VI(III)] | 793,872 | 22 | 780,770 | 21 | 672,411 | | 42180 Accounts payable - related parties [Note VII] | 2,315 | - | 4,968 | - | 1,788 | - |
| 1180 Accounts receivable - related parties [Notes VI(III) & VII] | 14,180 | - | 22,724 | 1 | 19,443 | | 192201 Payroll and bonus payable | 70,314 | 2 | 79,378 | 2 | 68,293 | 2 |
| 1310 Inventories, net [Note VI(IV)] | 437,178 | 12 | 390,840 | 11 | 474,295 | | 2213 Payable on equipment | 9,845 | - | 14,419 | - | 21,754 | 1 |
| 1476 Other financial assets - current [Note VI(VIII)] | - | - | 37 | - | 249 | | 12216 Dividends payable [Note VI(XVI)] | 84,525 | 2 | - | - | 83,184 | 2 |
| 1479 Other current assets [Note VI(IX)] | 56,219 | 2 | 30,746 | 1 | 39,152 | | 142280 Lease liabilities - current [Note VI(XIII)] | 9,273 | - | 6,113 | - | 4,936 | - |
| | <u>2,125,764</u> | <u>59</u> | <u>2,157,422</u> | <u>59</u> | <u>1,918,350</u> | <u>55</u> | 12320 Long-term liabilities due within one year [Note VI(XII)] | 246,038 | 7 | 2,095 | - | 4,036 | - |
| Non-current assets: | | | | | | | 2399 Other current liabilities | <u>93,938</u> | <u>3</u> | <u>92,973</u> | <u>3</u> | <u>68,825</u> | <u>2</u> |
| 1517 Financial assets at fair value through other comprehensive income - non-current [Note VI(II)] | 112,539 | 3 | 117,349 | 3 | 120,871 | | | <u>1,636,597</u> | <u>46</u> | <u>1,431,964</u> | <u>39</u> | <u>1,320,245</u> | <u>38</u> |
| 1550 Investments accounted for under the equity method [Note VI(V)] | 44,743 | 1 | 45,174 | 1 | 47,109 | | Non-current liabilities: | | | | | | |
| 1600 Property, plant and equipment [Note VI(VI)] | 1,095,956 | 31 | 1,176,196 | 32 | 1,264,719 | | 42570 Deferred income tax liabilities | - | - | - | - | 745 | - |
| 1840 Deferred income tax assets | 62,912 | 2 | 54,726 | 2 | 38,943 | | 2530 Bonds payable [Note VI(XII)] | - | - | 243,423 | 7 | 240,840 | 7 |
| 1755 Right-of-use assets [Note VI(VII)] | 42,038 | 1 | 30,967 | 1 | 28,801 | | 12580 Lease liabilities - non-current [Note VI(XIII)] | 22,196 | - | 13,739 | - | 11,975 | - |
| 1780 Intangible assets [Note VI(X)] | 35,981 | 1 | 37,259 | 1 | 39,263 | | | <u>22,196</u> | <u>-</u> | <u>257,162</u> | <u>7</u> | <u>253,560</u> | <u>7</u> |
| 1984 Other financial assets - non-current [Notes VI(VIII) & VIII] | 25,454 | 1 | 25,458 | 1 | 26,561 | | Total Liabilities | <u>1,658,793</u> | <u>46</u> | <u>1,689,126</u> | <u>46</u> | <u>1,573,805</u> | <u>45</u> |
| 1990 Other non-current assets [Note VI(IX)] | 38,469 | 1 | 9,562 | - | 9,962 | | Equity [Notes VI(XII) & (XVI)]: | | | | | | |
| | <u>1,458,092</u> | <u>41</u> | <u>1,496,691</u> | <u>41</u> | <u>1,576,229</u> | <u>45</u> | 3100 Share capital | 845,248 | 23 | 845,011 | 23 | 844,419 | 24 |
| Total assets | <u>\$ 3,583,856</u> | <u>100</u> | <u>3,654,113</u> | <u>100</u> | <u>3,494,579</u> | <u>100</u> | 13200 Capital surplus | 561,362 | 16 | 560,800 | 15 | 559,411 | 16 |
| | | | | | | | 3300 Retained earnings | 703,796 | 20 | 680,939 | 19 | 581,142 | 17 |
| | | | | | | | 3400 Other equity | (185,343) | (5) | (121,763) | (3) | (64,198) | (2) |
| | | | | | | | Total equity | <u>1,925,063</u> | <u>54</u> | <u>1,964,987</u> | <u>54</u> | <u>1,920,774</u> | <u>55</u> |
| | | | | | | | Total liabilities and equity | <u>\$ 3,583,856</u> | <u>100</u> | <u>3,654,113</u> | <u>100</u> | <u>3,494,579</u> | <u>100</u> |

(See the attached notes to the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-Dong Lin

Accounting Manager: Pei-Ling Li

Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China

**APAQ Technology Co., Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three Months and Six Months Ended June 30, 2020 and 2019**

Unit: NT\$ thousands

| | April to June, 2020 | | April to June, 2019 | | January to June, 2020 | | January to June, 2019 | |
|--|------------------------|------------|------------------------|------------|--------------------------|------------|--------------------------|------------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| 4110 Net sales revenue [Notes VI(XVIII) & VII] | \$ 598,200 | 100 | 482,101 | 100 | 996,714 | 100 | 842,457 | 100 |
| 5110 Operating costs [Notes VI(IV), (XIII), (XIX) & VII] | 410,176 | 69 | 381,495 | 79 | 728,672 | 73 | 690,535 | 82 |
| 5900 Gross profit | 188,024 | 31 | 100,606 | 21 | 268,042 | 27 | 151,922 | 18 |
| 6000 Operating expenses [Notes VI(XIII), (XIX) & VII] | | | | | | | | |
| 6100 Selling expenses | 22,728 | 4 | 19,544 | 4 | 40,376 | 4 | 36,540 | 4 |
| 6200 Administrative expenses | 39,079 | 6 | 29,236 | 6 | 70,440 | 7 | 54,545 | 7 |
| 6300 Research and development expenses | 16,441 | 3 | 12,822 | 3 | 31,019 | 3 | 25,492 | 3 |
| Total operating expenses | 78,248 | 13 | 61,602 | 13 | 141,835 | 14 | 116,577 | 14 |
| 6900 Operating income | 109,776 | 18 | 39,004 | 8 | 126,207 | 13 | 35,345 | 4 |
| 7000 Non-operating income and expenses: | | | | | | | | |
| 7020 Other gains and losses [Notes VI(XII) & (XX)] | 15,054 | 3 | 1,895 | - | 28,854 | 3 | 1,175 | - |
| 7050 Finance costs [Notes VI(XII), (XIII) & (XX)] | (4,078) | - | (7,232) | (1) | (9,494) | (1) | (16,507) | (2) |
| 7100 Interest income | 696 | - | 1,643 | - | 1,322 | - | 3,330 | 1 |
| 7230 Foreign exchange gain (loss), net [Note VI(XXI)] | (15,557) | (3) | 2,648 | 1 | (9,158) | (1) | 16,710 | 2 |
| 7370 Share of profit or loss of associates accounted for under the equity method [Note VI(V)] | | | | | | | | |
| | 122 | - | 1,450 | - | 403 | - | 1,212 | - |
| Non-operating income and expenses, net | (3,763) | - | 404 | - | 11,927 | 1 | 5,920 | 1 |
| 7900 Income before income tax | 106,013 | 18 | 39,408 | 8 | 138,134 | 14 | 41,265 | 5 |
| 7950 Less: Income tax expense [Note VI(XV)] | 23,957 | 4 | 9,491 | 2 | 30,752 | 3 | 9,491 | 1 |
| Net income | 82,056 | 14 | 29,917 | 6 | 107,382 | 11 | 31,774 | 4 |
| 8300 Other comprehensive income: | | | | | | | | |
| 8310 Items that may not be reclassified subsequently to profit or loss | | | | | | | | |
| 8316 Unrealized valuation gains (losses) from investments in equity instruments at fair value through other comprehensive income | (9,890) | (2) | 5,361 | 1 | (30,835) | (3) | (12,552) | (1) |
| Total of items that may not be reclassified subsequently to profit or loss | (9,890) | (2) | 5,361 | 1 | (30,835) | (3) | (12,552) | (1) |
| 8360 Items that may be reclassified subsequently to profit or loss | | | | | | | | |
| 8361 Exchange differences on translation of foreign operations | (30,742) | (5) | (20,531) | (4) | (40,931) | (4) | 12,408 | 1 |
| 8399 Less: Income tax related to items that may be reclassified [Note VI(XV)] | | | | | | | | |
| | (6,148) | (1) | (4,106) | (1) | (8,186) | (1) | 2,482 | - |
| Total of items that may be reclassified subsequently to profit or loss | (24,594) | (4) | (16,425) | (3) | (32,745) | (3) | 9,926 | 1 |
| 8300 Other comprehensive income, net of tax | (34,484) | (6) | (11,064) | (2) | (63,580) | (6) | (2,626) | - |
| Total comprehensive income | \$ 47,572 | 8 | 18,853 | 4 | 43,802 | 5 | 29,148 | 4 |
| Earnings per share (Unit: NT\$) [Note VI(XVII)] | | | | | | | | |
| 9750 Basic earnings per share | \$ 0.97 | | 0.36 | | 1.27 | | 0.38 | |
| 9850 Diluted earnings per share | \$ 0.93 | | 0.36 | | 1.22 | | 0.38 | |

(See the attached notes to the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-Dong Lin

Accounting Manager: Pei-Ling Li

Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China
APAQ Technology Co., Ltd. and Subsidiaries
Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2020 and 2019

Unit: NT\$ thousands

| | Share capital | | | Retained earnings | | | | | Other equity items | | | Treasury stocks | Total equity |
|---|-------------------------------|------------------------------|----------------|-------------------|----------------|-----------------|-------------------------|----------------|---|--|------------------|-----------------|------------------|
| | Share capital - common stocks | Capital collected in advance | Total | Capital surplus | Legal reserve | Special reserve | Unappropriated earnings | Total | Exchange differences on translation of foreign operations | Gain (loss) on equity instruments at fair value through other comprehensive income | Total | | |
| Balance as of January 1, 2019 | \$ 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 |
| Net income | - | - | - | - | - | - | 31,774 | 31,774 | - | - | - | - | 31,774 |
| Other comprehensive income | - | - | - | - | - | - | - | - | 9,926 | (12,552) | (2,626) | - | (2,626) |
| Total comprehensive income | - | - | - | - | - | - | 31,774 | 31,774 | 9,926 | (12,552) | (2,626) | - | 29,148 |
| Appropriation of legal reserve | - | - | - | - | 18,235 | - | (18,235) | - | - | - | - | - | - |
| Appropriation of special reserve | - | - | - | - | - | 7,110 | (7,110) | - | - | - | - | - | - |
| Cash dividends of common stocks | - | - | - | - | - | - | (83,184) | (83,184) | - | - | - | - | (83,184) |
| Buyback of treasury stocks | - | - | - | - | - | - | - | - | - | - | - | (10,158) | (10,158) |
| Transfer of treasury stocks to employees | - | - | - | - | - | - | - | - | - | - | - | 38,055 | 38,055 |
| Disposal of equity instruments at fair value through other comprehensive income | - | - | - | - | - | - | 10,373 | 10,373 | - | (10,373) | (10,373) | - | - |
| Balance as of June 30, 2019 | \$ 844,419 | - | 844,419 | 559,411 | 125,760 | 51,199 | 404,183 | 581,142 | (50,186) | (14,012) | (64,198) | - | 1,920,774 |
| Balance as of January 1, 2020 | \$ 844,419 | 592 | 845,011 | 560,800 | 125,760 | 51,199 | 503,980 | 680,939 | (114,755) | (7,008) | (121,763) | - | 1,964,987 |
| Net income | - | - | - | - | - | - | 107,382 | 107,382 | - | - | - | - | 107,382 |
| Other comprehensive income | - | - | - | - | - | - | - | - | (32,745) | (30,835) | (63,580) | - | (63,580) |
| Total comprehensive income | - | - | - | - | - | - | 107,382 | 107,382 | (32,745) | (30,835) | (63,580) | - | 43,802 |
| Appropriation of legal reserve | - | - | - | - | 14,195 | - | (14,195) | - | - | - | - | - | - |
| Appropriation of special reserve | - | - | - | - | - | 70,564 | (70,564) | - | - | - | - | - | - |
| Cash dividends of common stocks | - | - | - | - | - | - | (84,525) | (84,525) | - | - | - | - | (84,525) |
| Conversion of convertible bonds | 829 | (592) | 237 | 562 | - | - | - | - | - | - | - | - | 799 |
| Balance as of June 30, 2020 | \$ 845,248 | - | 845,248 | 561,362 | 139,955 | 121,763 | 442,078 | 703,796 | (147,500) | (37,843) | (185,343) | - | 1,925,063 |

(See the attached notes to the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-Dong Lin

Accounting Manager: Pei-Ling Li

Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards in the Republic of China

**APAQ Technology Co., Ltd. and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2020 and 2019**

Unit: NTS thousands

| | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|--|----------------------------------|----------------------------------|
| Cash flows from operating activities: | | |
| Income before income tax | \$ 138,134 | 41,265 |
| Adjustments: | | |
| Income and expense items: | | |
| Depreciation | 110,460 | 92,058 |
| Amortization | 2,105 | 2,371 |
| Interest expense | 9,494 | 16,507 |
| Dividend income | (1,033) | (1,243) |
| Interest income | (1,322) | (3,330) |
| Loss on market value decline and obsolete and slow-moving inventories | - | 1,500 |
| Share of profit of associates accounted for under the equity method | (403) | (1,212) |
| Loss on disposal and retirement of property, plant and equipment | 78 | 1,388 |
| Other non-cash expense items, net | 218 | 1,651 |
| Total income and expense items | <u>119,597</u> | <u>109,690</u> |
| Changes in operating assets and liabilities: | | |
| Notes and accounts receivable (including related parties) | 16,493 | (144,614) |
| Inventories | (57,237) | 125,795 |
| Other operating assets | (28,552) | 59,526 |
| Accounts payable (including related parties) | 69,421 | 14,875 |
| Other operating liabilities | (16,799) | 2,737 |
| Total adjustments | <u>102,923</u> | <u>168,009</u> |
| Cash generated from operations | <u>241,057</u> | <u>209,274</u> |
| Interest received | 1,322 | 3,330 |
| Dividends received | 1,033 | 1,243 |
| Interest paid | (8,150) | (15,829) |
| Income tax paid | (21,223) | (74,816) |
| Net cash generated by operating activities | <u>214,039</u> | <u>123,202</u> |
| Cash flows from investing activities: | | |
| Disposal of financial assets at fair value through other comprehensive income - current | - | 82,862 |
| Financial assets at fair value through other comprehensive income - return of capital due to capital reduction | 2,000 | - |
| Acquisition of property, plant and equipment | (43,654) | (90,622) |
| Acquisition of intangible assets | (830) | - |
| Increase in other financial assets | (556) | (193) |
| Increase in other non-current assets | (8,492) | (588) |
| Increase in prepayments for business facilities | (30,388) | - |
| Net cash used in investing activities | <u>(81,920)</u> | <u>(8,541)</u> |
| Cash flows from financing activities: | | |
| Increase in short-term loans | 100,000 | 142,310 |
| Repayment of short-term loans | (276,987) | (383,470) |
| Repayment for bonds due | (1,300) | - |
| Repayment of lease principal | (4,358) | (2,584) |
| Costs for buyback of treasury stocks | - | (13,520) |
| Transfer of treasury stocks to employees | - | 38,055 |
| Net cash used in financing activities | <u>(182,645)</u> | <u>(219,209)</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>9,271</u> | <u>3,392</u> |
| Net decrease in cash and cash equivalents | (41,255) | (101,156) |
| Cash and cash equivalents at beginning of period | <u>700,953</u> | <u>635,709</u> |
| Cash and cash equivalents at end of period | <u>\$ 659,698</u> | <u>534,553</u> |

(See the attached notes to the consolidated financial statements)

Chairman: Dr. DJ Zheng

Manager: Shi-Dong Lin

Accounting Manager: Pei-Ling Li

**Reviewed Only, Not Audited in Accordance with the Generally Accepted Auditing Standards
in the Republic of China
APAQ Technology Co., Ltd. and Subsidiaries
Notes to Consolidated Financial Statements
For the Six Months Ended June 30, 2020 and 2019
(In Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

I. Company History

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., Zhunan 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. Approval Date and Procedures of the Consolidated Financial Statements

The consolidated financial statements were approved and issued on August 4, 2020, by the Board of Directors.

III. Application of New and Amended Standards and Interpretations

(I) Impact of adopting newly issued or amended standards and interpretations endorsed by the Financial Supervisory Commission.

The consolidated company has adopted International Financial Reporting Standards (hereinafter referred to as "IFRSs") approved to take effect for annual periods beginning on January 1, 2020 by the Financial Supervisory Commission (hereinafter referred to as "FSC") in 2020 to prepare the consolidated financial statements. The new, revised, and amended standards and interpretations are summarized below:

| <u>New/Revised/Amended Standards and Interpretations</u> | <u>Effective Date Issued 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 |
| Amendment to IAS 1 and IAS 8 "Definition of Material" | January 1, 2020 |
| Amendments to IFRS 16 "COVID-19-related Rent Concessions" | June 1, 2020 |

The adoption of newly endorsed IFRSs above does not have a material impact on the consolidated financial statements.

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

- (II) Newly issued and amended standards and interpretations yet to be endorsed by the FSC. The table below lists standards and interpretations released or amended by International Accounting Standards Board (hereinafter referred to as "IASB") but not yet endorsed by FSC.

| <u>New/Revised/Amended Standards and Interpretations</u> | <u>Effective Date Issued 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 decided by IASB |
| IFRS 17 "Insurance Contracts" | January 1, 2023 |
| Amendments to IAS 1 "Classification of Liabilities as Current or Non-Current" | January 1, 2023 |
| Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use" | January 1, 2022 |
| Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" | January 1, 2022 |
| Annual Improvements to IFRSs 2018-2020 cycle- | January 1, 2022 |
| Amendments to IFRS 17 "Insurance Contracts" | January 1, 2023 |

Ones with potential impact to the consolidated company are as follows:

| <u>Date of Issuance</u> | <u>New or Amended Standards</u> | <u>Major Amendments</u> |
|-----------------------------|---|---|
| 2020.1.23 | Amendments to IAS 1 "Classification of Liabilities as Current or Non-Current" | The amendments are to promote consistency in applying the standards by helping companies determine whether debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current in the balance sheet. The amendments also clarify the classification rules for debts companies might settle by converting them into equity. |
| 2020.5.14 | Amendments to IAS 37 "Onerous Contracts - Cost of Fulfilling a Contract" | The amendments clarify that costs incurred in fulfilling a contract should include the following costs that are directly related to the contract: ·The incremental costs of fulfilling the contract - e.g. direct labor and raw materials; and ·An allocation of other costs that relate directly to fulfilling the contracts - e.g. the allocation of depreciation expense of property, plant and equipment used in fulfilling the contract. |

The consolidated company is in the process of evaluating the impact on its financial position and performance by adopting the standards and interpretations mentioned above, and will disclose relevant impacts when the evaluation is completed.

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

IV. Summary of Significant Accounting Policies

(I) Statement of compliance

The consolidated financial statements for the six months ended June 30, 2020 and 2019 have been prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereinafter referred to as the Preparation Regulations" and IAS 34 "Interim Financial Reporting" endorsed and issued into effect by the FSC. The consolidated financial statements did not contain all necessary information required in annual consolidated financial statements pursuant to IFRSs, IAS, IFRIC interpretations and SIC interpretations endorsed and issued into effect by the FSC (hereinafter referred to as "IFRSs endorsed by FSC").

Except for the following descriptions, the consolidated financial statements for the six months ended June 30, 2020 and 2019 adopt the same accounting policies as the ones used in the consolidated financial statements for the year ended December 31, 2019. Please refer to Note IV of the consolidated financial statements for the year ended December 31, 2019 for details.

(II) Basis of consolidation

1. Subsidiaries included in the consolidated financial statements

| Name of Investor | Name of Subsidiaries | Business Activities | Percentage of Ownership | | | Description |
|------------------|--|---|-------------------------|------------|-----------|-------------|
| | | | 2020.6.30 | 2019.12.31 | 2019.6.30 | |
| The Company | APAQ Investment Limited (APAQ Samoa) | Investment holding company | 100% | 100% | 100% | |
| APAQ Samoa | Apaq Technology (Wuxi) Co., Ltd. (Apaq Wuxi) | Production and sales of electronic products | 100% | 100% | 100% | |
| The Company | Apaq Technology (Hubei) Co., Ltd. (Apaq Hubei) | Production and sales of electronic products | 100% | 100% | - | Note |

Note: The Company invested and established Apaq Hubei in September 2019. Apaq Hubei was included in the consolidated financial statements since the date of its investment.

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

(III) Government Grants

The consolidated company recognized government grants with no conditions attached as other income when the grants became receivable. Government grants intended to compensate expenses incurred or losses of the consolidated company were recognized

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

in profit or loss in the same period as relevant expenses on a systematic basis.

(IV) **Income Tax**

The consolidated company measured and disclosed interim income tax expense pursuant to Paragraph B12, IAS 34 "Interim Financial Reporting."

Income tax expenses for an interim period were accrued by applying management's best estimate of tax rate applicable based on expected total annual earnings to the pre-tax income of the interim period and fully recognized as income tax expense of the current period.

Income tax expense recognized directly in equity or other comprehensive income was measured using the applicable tax rates at the time of expected realization or settlement of the temporary differences between the carrying amount of related assets and liabilities for financial reporting purposes and their tax bases.

V. Significant Accounting Judgments, Estimates and Key Sources of Uncertainty over Assumptions

When preparing the consolidated financial statements according to Preparation Regulations and IAS 34 "Interim Financial Reporting" endorsed by the FSC, the management has to make judgements, estimates and assumptions, which may influence the adoption of accounting policies, and the reporting amount of assets, liabilities, incomes and expenses. There may be differences between actual results and estimates.

When preparing the consolidated financial statements, significant accounting judgments, estimates and key sources of uncertainty made by the management for the adoption of the consolidated company's accounting policies are consistent with Note V(I) of the consolidated financial statements for the year ended December 31, 2019.

VI. Details of Significant Accounts

Except for the following descriptions, the descriptions of significant accounts in the consolidated financial statements are not materially different from the consolidated financial statements for the year ended December 31, 2019. Please refer to Note VI of the consolidated financial statements for the year ended December 31, 2019 for details.

(I) **Cash and cash equivalents**

| | <u>2020.6.30</u> | <u>2019.12.31</u> | <u>2019.6.30</u> |
|---------------------------|-------------------|-------------------|------------------|
| Cash and demand deposit | \$ 617,845 | 572,028 | 399,013 |
| Time deposits | 41,853 | 128,925 | 135,540 |
| Cash and cash equivalents | <u>\$ 659,698</u> | <u>700,953</u> | <u>534,553</u> |

Please refer to Note VI(XXI) for currency risk disclosure of the financial assets and liabilities.

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

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

1. Current:

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|------------------------|-------------------|-------------------|------------------|
| Domestic listed stocks | \$ 115,866 | 143,891 | 148,365 |

The consolidated company sold a part of financial assets at fair value through other comprehensive income for the six months ended June 30, 2019. At the time of disposal, the fair value was NT\$82,862 thousand and the accumulated gains on disposal amounted to NT\$10,373 thousand, which was transferred from other equity to retained earnings.

2. Non-current:

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|---|-------------------|-------------------|------------------|
| Domestic and foreign unlisted common stocks - | | | |
| Foxfortune Technology Ventures Limited | \$ 40,293 | 42,551 | 26,754 |
| Inpaq Korea Co., Ltd. | 1,068 | 701 | 750 |
| Element I Venture Capital Co., Ltd. | 15,952 | 20,125 | 20,753 |
| Taiwan Innovative Space Inc. | - | - | 19,508 |
| Kuan Kun Electronic Enterprise Co., Ltd. | 50,722 | 49,468 | 49,360 |
| AICP Technology Corporation | 4,504 | 4,504 | 3,746 |
| | \$ 112,539 | 117,349 | 120,871 |

Information on major equity investments denominated in foreign currencies as of the reporting date is as follows:

| | 2020.6.30 | | | 2019.12.31 | | | 2019.6.30 | | |
|------|-------------------------|----------------------|------------|-------------------------|----------------------|------------|-------------------------|----------------------|------------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| US\$ | \$1,017 | 29.63 | 30,134 | 1,017 | 29.98 | 30,490 | 1,017 | 31.06 | 31,588 |

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.

Element I Venture Capital Co., Ltd. had resolved to carry out capital reduction in the board meeting in June 2020 and returned capital of NT\$2,000 thousand to the consolidated company.

The consolidated company recognized dividend income of NT\$1,033 thousand and NT\$1,243 thousand for the aforementioned investments in equity instruments designated at fair value through other comprehensive income for the

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

six months ended June 30, 2020 and 2019, respectively.

(III) Notes and accounts receivable

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|---------------------|-------------------|-------------------|------------------|
| Notes receivable | \$ 48,751 | 87,461 | 29,882 |
| Accounts receivable | 793,872 | 780,770 | 672,411 |
| | \$ 842,623 | 868,231 | 702,293 |

The consolidated company adopts a simplified method to estimate the expected credit loss for all receivables (including related parties), that is, using the lifetime expected credit loss. For this purpose, these receivables are categorized based on common credit risk characteristics of customers' capability to pay for amount due in accordance with the contracts 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:

| 2020.6.30 | | | |
|-----------------------------------|---|--|--|
| | Carrying amount of accounts receivable (including related parties) | Loss Ratio of Lifetime Expected Credit Loss | Allowance for Lifetime Expected Credit Loss |
| Not past due | \$ 856,480 | 0% | - |
| Overdue for 0-60 days | 323 | 0% | - |
| Overdue for 61-90 days | - | 0% | - |
| Overdue for 91 days and longer | - | 100% | - |
| Total | \$ 856,803 | | - |

| 2019.12.31 | | | |
|-----------------------------------|---|--|--|
| | Carrying amount of accounts receivable (including related parties) | Loss Ratio of Lifetime Expected Credit Loss | Allowance for Lifetime Expected Credit Loss |
| Not past due | \$ 880,459 | 0% | - |
| Overdue for 0-60 days | 10,496 | 0% | - |
| Overdue for 61-90 days | - | 0% | - |
| Overdue for 91 days and longer | - | 100% | - |
| Total | \$ 890,955 | | - |

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

2019.6.30

| | Carrying amount of accounts receivable (including related parties) | Loss Ratio of Lifetime Expected Credit Loss | Allowance for Lifetime Expected Credit Loss |
|-----------------------------------|--|---|---|
| Not past due | \$ 711,168 | 0% | - |
| Overdue for 0-60 days | 10,324 | 0% | - |
| Overdue for 61-90 days | 244 | 0% | - |
| Overdue for 91 days and longer | - | 100% | - |
| Total | \$ 721,736 | | - |

No impairment loss has been provided for receivables (including related parties) for the six months ended June 30, 2020 and 2019.

(IV) Inventories, net

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|--|-------------------|----------------|----------------|
| Raw materials | \$ 164,521 | 125,015 | 152,556 |
| Work in process and semi- finished products | 56,627 | 49,683 | 41,165 |
| Finished goods and commodity | 216,030 | 216,142 | 280,574 |
| Total | \$ 437,178 | 390,840 | 474,295 |

The details of operating costs were as follows:

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Cost of goods sold | \$ 410,176 | 381,495 | 728,672 | 689,040 |
| Loss on market value decline and obsolete and slow-moving inventories | - | - | - | 1,500 |
| Income from sale of scraps | - | - | - | (5) |
| Total | \$ 410,176 | 381,495 | 728,672 | 690,535 |

(V) Investments accounted for under the equity method

The summarized financial information of the consolidated company's associates accounted for under the equity method is as follows and the amount is included in the consolidated financial statements of the consolidated company:

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|--|------------------|---------------|---------------|
| The carrying amount of equity of individually immaterial associates at end of period | \$ 44,743 | 45,174 | 47,109 |

Share attributable to the consolidated company:

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|-----------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Net income (loss) | \$ 122 | 1,450 | 403 | 1,212 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | \$ 122 | 1,450 | 403 | 1,212 |

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

The consolidated company's share of profit or loss and other comprehensive income of investments accounted for under the equity method is measured based on the financial statements not reviewed by the CPAs as it is not individually material.

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

| | Buildings | Machinery and equipment | Other equipment and others | Construction in progress and equipment to be tested | Total |
|-------------------------------------|-------------------|--|---|--|------------------|
| Cost: | | | | | |
| Balance as of January 1, 2020 | \$ 353,940 | 1,489,109 | 114,134 | 52,619 | 2,009,802 |
| Additions | - | 12,674 | 10,626 | 25,384 | 48,684 |
| Disposals and obsolescence | - | (396) | (463) | - | (859) |
| Reclassifications | - | 22,440 | (11,171) | (11,487) | (218) |
| Effect of Exchange Rate | (9,238) | (38,780) | (2,219) | (2,288) | (52,525) |
| Balance as of June 30, 2020 | \$ 344,702 | 1,485,047 | 110,907 | 64,228 | 2,004,884 |
| Balance as of January 1, 2019 | \$ 368,584 | 1,413,492 | 90,793 | 106,163 | 1,979,032 |
| Additions | - | 37,258 | 7,792 | 19,376 | 64,426 |
| Disposals and obsolescence | - | (2,721) | (4,819) | - | (7,540) |
| Reclassifications | - | 62,387 | 1,059 | (65,044) | (1,598) |
| Effect of Exchange Rate | 3,517 | 10,936 | 490 | 1,776 | 16,719 |
| Balance as of June 30, 2019 | \$ 372,101 | 1,521,352 | 95,315 | 62,271 | 2,051,039 |
| Depreciation: | | | | | |
| Balance as of January 1, 2020 | \$ 113,230 | 666,892 | 53,484 | - | 833,606 |
| Depreciation for the current period | 13,266 | 83,760 | 8,808 | - | 105,834 |
| Disposals and obsolescence | - | (366) | (415) | - | (781) |
| Effect of Exchange Rate | (4,182) | (24,306) | (1,243) | - | (29,731) |
| Balance as of June 30, 2020 | \$ 122,314 | 725,980 | 60,634 | - | 908,928 |
| Balance as of January 1, 2019 | \$ 95,175 | 559,623 | 45,016 | - | 699,814 |
| Depreciation for the current period | 11,551 | 70,801 | 6,924 | - | 89,276 |
| Disposals and obsolescence | - | (1,873) | (4,279) | - | (6,152) |
| Effect of Exchange Rate | 697 | 2,413 | 272 | - | 3,382 |
| Balance as of June 30, 2019 | \$ 107,423 | 630,964 | 47,933 | - | 786,320 |
| Carrying Amount: | | | | | |
| January 1, 2020 | \$ 240,710 | 822,217 | 60,650 | 52,619 | 1,176,196 |
| June 30, 2020 | \$ 222,388 | 759,067 | 50,273 | 64,228 | 1,095,956 |
| June 30, 2019 | \$ 264,678 | 890,388 | 47,382 | 62,271 | 1,264,719 |

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

(VII) Right-of-use assets

| | <u>Land use rights</u> | <u>Buildings</u> | <u>Transport ation equipment</u> | <u>Total</u> |
|--|----------------------------|------------------|--|---------------|
| Cost of right-of-use assets: | | | | |
| Balance as of January 1, 2020 | \$ 11,497 | 24,497 | 1,082 | 37,076 |
| Additions | - | 15,975 | - | 15,975 |
| Effect of foreign exchange rate changes | (300) | - | - | (300) |
| Balance as of June 30, 2020 | <u>\$ 11,197</u> | <u>40,472</u> | <u>1,082</u> | <u>52,751</u> |
| Balance as of January 1, 2019 | \$ 11,974 | 18,413 | 1,082 | 31,469 |
| Effect of foreign exchange rate changes | 114 | - | - | 114 |
| Balance as of June 30, 2019 | <u>\$ 12,088</u> | <u>18,413</u> | <u>1,082</u> | <u>31,583</u> |
| Accumulated depreciation of right-of-use assets: | | | | |
| Balance as of January 1, 2020 | \$ 284 | 5,342 | 483 | 6,109 |
| Depreciation | 153 | 4,232 | 241 | 4,626 |
| Effect of foreign exchange rate changes | (22) | - | - | (22) |
| Balance as of June 30, 2020 | <u>\$ 415</u> | <u>9,574</u> | <u>724</u> | <u>10,713</u> |
| Balance as of January 1, 2019 | \$ - | - | - | - |
| Depreciation | 152 | 2,390 | 240 | 2,782 |
| Balance as of June 30, 2019 | <u>\$ 152</u> | <u>2,390</u> | <u>240</u> | <u>2,782</u> |
| Carrying Amount: | | | | |
| January 1, 2020 | <u>\$ 11,213</u> | <u>19,155</u> | <u>599</u> | <u>30,967</u> |
| June 30, 2020 | <u>\$ 10,782</u> | <u>30,898</u> | <u>358</u> | <u>42,038</u> |
| June 30, 2019 | <u>\$ 11,936</u> | <u>16,023</u> | <u>842</u> | <u>28,801</u> |

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

| | <u>2020.6.30</u> | <u>2019.12.31</u> | <u>2019.6.30</u> |
|---------------------|------------------|-------------------|------------------|
| Refundable deposits | \$ 25,454 | 25,458 | 26,561 |
| Other receivables | - | 37 | 249 |
| | <u>\$ 25,454</u> | <u>25,495</u> | <u>26,810</u> |

(IX) Other assets - current and non-current

| | <u>2020.6.30</u> | <u>2019.12.31</u> | <u>2019.6.30</u> |
|---|------------------|-------------------|------------------|
| Credits of business tax and incremental value tax | \$ 39,732 | 17,677 | 26,317 |
| Prepayments for business facilities | 34,760 | 7,182 | 7,640 |
| Prepayments to suppliers | 752 | 721 | 394 |
| Prepaid expenses and others | 19,444 | 14,728 | 14,763 |
| | <u>\$ 94,688</u> | <u>40,308</u> | <u>49,114</u> |

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

(X) Intangible assets

| | Computer software | Royalty fees | Total |
|-----------------|------------------------------|---------------------|--------------|
| January 1, 2020 | \$ 353 | 36,906 | 37,259 |
| June 30, 2020 | \$ 951 | 35,030 | 35,981 |
| June 30, 2019 | \$ 481 | 38,782 | 39,263 |

There were no material additions, disposals, provision or reversal of impairment where the consolidate company's intangible assets were concerned for the six months ended June 30, 2020 and 2019. Please refer to Note XII for amortization amount of the current period and Note VI(XI) of the financial statements for the year ended December 31, 2019 for other relevant information.

(XI) Short-term loans

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|----------------------|-------------------|-------------------|-------------------|
| Unsecured bank loans | \$ 754,630 | 924,840 | 866,660 |
| Unused facilities | \$ 772,040 | 365,140 | 652,880 |
| Interest rate range | 0.88%~ 1.1502% | 1.1%~ 3.56198% | 1.1%~ 4.27716% |

(XII) Convertible bonds payable

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

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|--|------------------|-------------------|------------------|
| Total amount of convertible corporate bonds issued | \$ 300,000 | 300,000 | 300,000 |
| Less: Unamortized bonds payable discount | - | (5) | (64) |
| Less: Accumulated converted common stocks | (298,700) | (297,900) | (295,900) |
| Less: Repayment upon maturity | (1,300) | - | - |
| Balance of bonds payable at end of period (recognized under long-term liabilities due within one year) | \$ - | 2,095 | 4,036 |

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|---|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Embedded derivatives - profit/loss of redemption rights remeasured at fair value (recognized as valuation losses of financial assets) | \$ - | 1 | - | 2 |
| Interest expense | \$ - | 24 | 3 | 48 |

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

The Company's first unsecured convertible corporate bonds matured on March 1, 2020, and the TPEX trading was terminated on the business day following the maturity date. According to Article 6 of the Company's issuance and conversion rules, the Company will make a one-time cash redemption payment based on the remaining face value of the bonds upon maturity.

The conversion prices of the first-time issuance of unsecured convertible corporate bonds were NT\$33.8 and NT\$34.9 on March 1, 2020 (maturity date) and June 30, 2019, respectively.

Between January 1, 2020 to March 1, 2020 (maturity date), a nominal amount of NT\$799 thousand unsecured convertible corporate bonds were applied to be converted to 23 thousand common stocks. Capital surplus increased by NT\$562 thousand due to the conversion.

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

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|--|------------------|-------------------|------------------|
| Total amount of convertible corporate bonds issued | \$ 250,000 | 250,000 | 250,000 |
| Less: Unamortized bonds payable discount | (3,962) | (6,577) | (9,160) |
| Less: long-term liabilities due within one year | (246,038) | - | - |
| Bonds payable at end of period | \$ - | 243,423 | 240,840 |

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| Embedded derivatives - profit/loss of redemption rights remeasured at fair value (recognized as valuation losses of financial assets) | \$ - | 25 | - | 50 |
| Interest expense | \$ 1,308 | 1,281 | 2,612 | 2,555 |

The conversion prices were NT\$58.0 and NT\$59.9 on June 30, 2020 and 2019, respectively.

(XIII) Lease liabilities

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

| | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|-------------|------------------|-------------------|------------------|
| Current | \$ 9,273 | 6,113 | 4,936 |
| Non-current | \$ 22,196 | 13,739 | 11,975 |

For maturity analysis, please refer to Note VI(XXI) Financial instruments.

The amount recognized in profit or loss is as follows:

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

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|--|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Interest expense on lease liabilities | <u>\$ 95</u> | <u>51</u> | <u>180</u> | <u>106</u> |
| Expense for leases of low-value assets | <u>\$ 20</u> | <u>19</u> | <u>38</u> | <u>38</u> |

The amounts recognized in the statements of cash flows are as follows:

| | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|------------------------------|------------------------------|------------------------------|
| Total cash outflow for lease | <u>\$ 4,576</u> | <u>2,728</u> |

1. Leasing of houses and buildings

The consolidated company leased houses and buildings as office premises and factory buildings as of June 30, 2020 and 2019 with a lease period of 1 to 5 years. Some leases include the option to extend for the same period as the original contracts when the leases expire.

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, not 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 for leasing office premises of the consolidated company is two years. These leases are for low-value assets, and the consolidated company chooses to apply the exemption recognition requirement instead of recognizing the right-of-use assets and lease liabilities.

(XIV) Employee benefits

For pension expenses for the six months ended June 30, 2020 and 2019, please refer to Note XII for details.

(XV) Income tax

1. The amount of the consolidated company's income tax expenses was as follows:

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|--|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Current income tax expenses | \$ 29,518 | 5,171 | 36,313 | 5,171 |
| Additional tax on undistributed earnings | - | 3,913 | - | 3,913 |
| Current income tax from adjustment of prior period | <u>(5,561)</u> | <u>407</u> | <u>(5,561)</u> | <u>407</u> |
| | <u>\$ 23,957</u> | <u>9,491</u> | <u>30,752</u> | <u>9,491</u> |

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Notes to the Consolidated Financial Report (continued)

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

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Exchange differences on translation of foreign operations | \$ (6,148) | (4,106) | (8,186) | 2,482 |

3. The ROC income tax authorities have examined the Company's income tax returns through 2018.

(XVI) Capital and other equity

Except for the following descriptions, there was no material change in the capital and other equity of the consolidated company for the six months ended June 30, 2020 and 2019. Please refer to Note VI(XVIII) of the consolidated financial statements for the year ended December 31, 2019 for details.

1. Share capital

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

| | Common Stocks | |
|--|--------------------------|--------------------------|
| | January to June, 2020 | January to June, 2019 |
| Balance as of January 1 | 84,502 | 83,514 |
| Buyback of treasury stocks | - | (330) |
| Conversion of convertible bonds | 23 | - |
| Transfer of treasury stocks to employees | - | 1,258 |
| Balance as of June 30 | 84,525 | 84,442 |

Between January 1, 2020 to March 1, 2020 (maturity date), the Company issued 23,000 common stocks with an amount of NT\$237 thousand for the conversion of corporate bonds. As of June 30, 2020, the statutory registration procedures were completed and the stocks were reclassified as share capital - common stocks. In addition, the Company issued 60,000 common stocks for the conversion of corporate bonds for the year ended December 31, 2019. As the statutory registration procedures were not completed as of December 31, 2019, they were recognized as capital collected in advance of NT\$592 thousand. As of June 30, 2020, the statutory registration procedures were completed and the stocks were reclassified as share capital - common stocks.

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

2. Capital surplus

| | <u>2020.6.30</u> | <u>2019.12.31</u> | <u>2019.6.30</u> |
|---|-------------------|-------------------|------------------|
| Share premium | \$ 320,766 | 320,766 | 320,766 |
| Compensation cost of shares retained for employee subscription at cash capital increase | 7,852 | 7,852 | 7,852 |
| Subscription right to convertible corporate bonds | 11,890 | 11,935 | 12,039 |
| Treasury stock trade | 3,642 | 3,642 | 3,642 |
| Premium from conversion of corporate bonds to common stocks | 217,212 | 216,605 | 215,112 |
| | <u>\$ 561,362</u> | <u>560,800</u> | <u>559,411</u> |

In accordance with the Company Act, realized capital surplus can only be distributed as stocks or cash dividends in accordance with shareholders' original shareholding percentages after offsetting losses. The above-mentioned realized capital surplus includes amount in excess of the face amount during shares issuance and acceptance of bestowal. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers," the total of capital surplus appropriated for capital every year shall not exceed 10% of the paid-in capital.

3. Retained earnings

The appropriation of earnings of the two most recent years was approved during shareholders' meetings held on June 17, 2020 and June 19, 2019, respectively. Information on dividends appropriated to owners is as follows:

| | <u>2019</u> | | <u>2018</u> | |
|---|----------------------------|---------------|----------------------------|---------------|
| | <u>Dividends per share</u> | <u>Amount</u> | <u>Dividends per share</u> | <u>Amount</u> |
| Dividends distributed to owners of common stocks: | | | | |
| Cash (NT\$) | \$ 1 | <u>84,525</u> | 0.98510218 | <u>83,184</u> |

The above appropriation of earnings is consistent with the resolutions approved by the Board of Directors. As for the 2020 appropriation of earnings, the Board of Directors would draft a proposal to be resolved at the shareholders' meeting after the end of the fiscal year. Information will be available at the Market Observation Post System (MOPS).

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Notes to the Consolidated Financial Report (continued)

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 Buyback | January to June, 2019 | | | | Number of shares - ending |
|-----------------------|------------------------------|----------|----------|-----------|---------------------------|
| | Number of shares - beginning | Increase | Transfer | Cancelled | |
| Transfer to employees | 928 | 330 | (1,258) | - | - |

In accordance with provisions of the Securities and Exchange Act, the share buyback rate shall not exceed 10% of total number of shares issued by the Company. The total amount of buyback shares shall not exceed the sum of retained earnings, share premium and realized capital surplus. In accordance with provisions of the Securities and Exchange Act, the treasury stocks held by the Company cannot be pledged, and are not entitled to the rights of shareholders before being transferred.

The Company has transferred all treasury shares to employees during the six months ended June 30, 2019. As the transfer price is higher than the market price, no compensation cost was recognized.

(XVII) Earnings per Share (EPS)

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Basic EPS: | | | | |
| Net income attributable to the Company | \$ 82,056 | 29,917 | 107,382 | 31,774 |
| Weighted average number of common stocks outstanding (in thousands of shares) | 84,525 | 83,709 | 84,512 | 83,448 |
| Basic EPS (NT\$) | \$ 0.97 | 0.36 | 1.27 | 0.38 |
| Diluted EPS: | | | | |
| Net income attributable to the Company | \$ 82,056 | 29,917 | 107,382 | 31,774 |
| Post-tax interest on convertible corporate bonds | 1,049 | - | 2,090 | - |
| Net income attributable to common stocks | \$ 83,105 | 29,917 | 109,472 | 31,774 |
| Weighted average number of common stocks outstanding (in thousands of shares) | 84,525 | 83,709 | 84,512 | 83,448 |
| Employee compensation to be distributed in stocks | 427 | 134 | 804 | 410 |
| Convertible corporate bonds | 4,311 | - | 4,311 | - |
| Weighted average number of common stocks outstanding for the calculation of diluted EPS (in thousands of shares) | 89,263 | 83,843 | 89,627 | 83,858 |
| Diluted EPS (NT\$) | \$ 0.93 | 0.36 | 1.22 | 0.38 |

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The convertible bonds issued by the Company had not been included in the calculation of diluted EPS for the second quarter of 2019 as they had anti-dilution effect.

(XVIII) Revenue of customer contract

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|---|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Main geographical areas | | | | |
| China | \$ 578,204 | 477,575 | 962,435 | 829,981 |
| Taiwan | 19,462 | 3,612 | 33,072 | 9,156 |
| Other Countries | 534 | 914 | 1,207 | 3,320 |
| | <u>\$ 598,200</u> | <u>482,101</u> | <u>996,714</u> | <u>842,457</u> |
| Major products | | | | |
| Coiled conductive polymer solid capacitors | \$ 509,592 | 435,687 | 866,098 | 757,481 |
| Chip-type conductive polymer solid state appliances | 88,608 | 46,414 | 130,616 | 84,976 |
| | <u>\$ 598,200</u> | <u>482,101</u> | <u>996,714</u> | <u>842,457</u> |

(XIX) Employee, Director, and Supervisor compensation

The Company's Articles of Incorporation provide that if there is profit in the year, at least 8 percent of profit shall be allocated for employee compensation, and no more than 3 percent shall be allocated for remunerations of the Directors and Supervisors. However, if the Company has accumulated losses, it shall reserve a portion of the profit to offset the losses in advance. Parties eligible to receive the said compensation in the form of stock or cash shall include employees in affiliated companies who met certain conditions.

The Company accrued NT\$9,796 thousand, NT\$3,941 thousand, NT\$12,811 thousand, and NT\$3,941 thousand as employee compensation and NT\$2,881 thousand, NT\$1,159 thousand, NT\$3,768 thousand, and NT\$1,159 thousand as remuneration for Directors and Supervisors for the three months and six months ended June 30, 2020 and 2019, respectively. These amounts were calculated using the Company's pre-tax income before deducting for employee compensation and remuneration for Directors and Supervisors multiplied by the percentages which are stated under the Company's Article of Incorporation. The amounts were recognized as operating costs or operating expenses for the periods. Difference between amount distributed and accrued will be regarded as changes in accounting estimates and reflected in profit or loss in the following year. If employee compensation is resolved to be distributed in stock, the number of shares is determined by dividing the amount of compensation by the closing price of common stocks on the day preceding the Board of Directors' meeting.

The amounts appropriated for employee compensation and remunerations to Directors and Supervisors for 2019 were NT\$16,437 thousand and NT\$4,834

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thousand, respectively, which bear no difference from the Board resolutions. Relevant information can be found at the MOPS.

(XX) Non-operating income and expenses

1. Other gains and losses, net

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|--|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Subsidy income | \$ 12,780 | - | 25,879 | 27 |
| Loss on disposal of property, plant and equipment | (59) | (19) | (78) | (1,388) |
| Valuation loss of financial assets | - | (26) | - | (52) |
| Dividend income | 1,033 | 1,243 | 1,033 | 1,243 |
| Others | 1,300 | 697 | 2,020 | 1,34 |
| Other gains and losses, net | <u>\$ 15,054</u> | <u>1,895</u> | <u>28,854</u> | <u>1,175</u> |

2. Finance costs

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|--|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Interest expenses of corporate bonds | \$ 1,308 | 1,305 | 2,615 | 2,603 |
| Interest expenses of loans | 2,675 | 5,876 | 6,699 | 13,798 |
| Interest expense on lease liabilities | 95 | 51 | 180 | 106 |
| | <u>\$ 4,078</u> | <u>7,232</u> | <u>9,494</u> | <u>16,507</u> |

(XXI) Financial instruments

Except for the following descriptions, there have been no significant changes in the fair value of the consolidated company's financial instruments and the exposure to credit risk, liquidity risk and market risk arising from the financial instruments. Please refer to Note VI(XXIII) of the consolidated financial statements for the year ended December 31, 2019 for relevant information.

1. Credit risk

(1) 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. As at June 30, 2020, December 31, 2019 and June 30, 2019, 46%, 42%, and 43% of the consolidated company's accounts receivables were due from five customers, respectively, resulting in significant credit risk concentration.

(2) Credit risk of accounts receivable and debt securities

Please refer to Note VI(III) for credit risk exposure of accounts receivable. Other financial assets at amortized cost included other receivables from

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

related parties and time deposits. No impairment loss was recognized.

The above-mentioned financial assets have low credit risk, so the allowance loss of the period is measured based on twelve-month expected credit loss (please refer to Note IV(VII) of the consolidated financial statements for the year ended December 31, 2019 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> |
|---|------------------------|---------------------------|---------------------------|---------------------|----------------------------|
| June 30, 2020 | | | | | |
| Non-derivative | | | | | |
| Financial Liabilities | | | | | |
| Short-term loans | \$ 754,630 | 754,630 | 754,630 | - | - |
| Accounts payable (including related parties) | 368,034 | 368,034 | 368,034 | - | - |
| Payroll and bonus payable | 70,314 | 70,314 | 70,314 | - | - |
| Payable on equipment | 9,845 | 9,845 | 3,100 | 3,46 | 3,279 |
| Dividends payable | 84,525 | 84,525 | 84,525 | - | - |
| Lease liabilities (including current and non-current) | 31,469 | 32,175 | 4,856 | 4,730 | 22,589 |
| | <u>\$ 1,318,817</u> | <u>1,319,523</u> | <u>1,285,459</u> | <u>8,196</u> | <u>25,868</u> |
| December 31, 2019 | | | | | |
| Non-derivative | | | | | |
| Financial Liabilities | | | | | |
| Short-term loans | \$ 924,840 | 927,628 | 927,628 | - | - |
| Accounts payable (including related parties) | 312,146 | 312,146 | 312,146 | - | - |
| Payable on equipment | 14,419 | 14,419 | 2,770 | 11,649 | - |
| Lease liabilities (including current and non-current) | 19,852 | 20,274 | 3,192 | 3,117 | 13,965 |
| | <u>\$ 1,271,257</u> | <u>1,274,467</u> | <u>1,245,736</u> | <u>14,766</u> | <u>13,965</u> |
| June 30, 2019 | | | | | |
| Non-derivative | | | | | |
| Financial Liabilities | | | | | |
| Short-term loans | \$ 866,660 | 873,175 | 778,565 | 94,610 | - |
| Accounts payable (including related parties) | 202,557 | 202,557 | 202,557 | - | - |
| Payable on equipment | 21,754 | 21,754 | 10,121 | 11,633 | - |
| Dividends payable | 83,184 | 83,184 | 83,184 | - | - |
| Lease liabilities (including current and non-current) | 16,911 | 17,286 | 2,610 | 2,494 | 12,182 |
| | <u>\$ 1,191,066</u> | <u>1,197,956</u> | <u>1,077,037</u> | <u>108,737</u> | <u>12,182</u> |

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3. Exchange rate risk

(1) Exchange rate risk exposure

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

| | 2020.6.30 | | | 2019.12.31 | | | 2019.6.30 | | |
|-----------------------|------------------|---------------|-----------|------------------|---------------|-----------|------------------|---------------|---------|
| | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| Financial assets | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD | \$35,752 | 29.63 | 1,059,332 | 34,796 | 29.98 | 1,043,184 | 26,579 | 31.06 | 825,544 |
| RMB | 47,040 | 4.1853 | 196,877 | 54,101 | 4.2975 | 232,499 | 47,369 | 4.5180 | 214,013 |
| Financial liabilities | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD | 1,83 | 29.63 | 54,282 | 10,427 | 29.98 | 312,601 | 11,760 | 31.06 | 365,266 |

(2) Sensitivity analysis

The consolidated company's exposure to foreign currency risk mainly arises from exchange gains and losses of cash, receivables, short-term loans, accounts payable, and other payables that are denominated in US dollars and RMB. Changes in net income for the six months ended June 30, 2020 and 2019 due to depreciation or appreciation of NT dollars against US dollars and RMB as of June 30, 2020, December 31, 2019, and June 30, 2019 with all other variables held constant were as follows:

| | Fluctuation | January to June, 2020 | January to June, 2019 |
|------------|-----------------------------|-----------------------|-----------------------|
| NT dollars | 1% depreciation against USD | \$ 8,040 | 3,682 |
| | 1% appreciation against USD | \$ (8,040) | (3,682) |
| NT dollars | 1% depreciation against RMB | \$ 1,575 | 1,712 |
| | 1% appreciation against RMB | \$ (1,575) | (1,712) |

(3) Exchange gain/loss of monetary items

As the consolidated company has a large variety of functional currencies, the exchange gains and losses of monetary items were disclosed on an aggregated basis. The foreign exchange gains/(losses) (including realized and unrealized) for the three months and six months ended June 30, 2020 and 2019 were NT\$(15,557) thousand, NT\$2,648 thousand, NT\$(9,158) thousand, and NT\$16,710 thousand, respectively.

4. Interest rate analysis

The interest rate risk exposure of financial assets and financial liabilities of the consolidated company is described in the liquidity risk management of the Notes. The following sensitivity analysis is determined by the interest rate risk exposure

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of non-derivative instruments on the reporting date. For liabilities with floating interest rates, the analysis is based on the assumption that the outstanding liabilities on the reporting date have been outstanding all year round. Changes in other comprehensive income for the six months ended June 30, 2020 and 2019 due to interest rate changes with all other variables held constant were as follows:

| | Fluctuation | January to June, 2020 | January to June, 2019 |
|-----------------------|--------------------|------------------------------|------------------------------|
| Annual borrowing rate | Increase by 1% | \$ (6,037) | (6,933) |
| | Decrease by 1% | \$ 6,037 | 6,933 |

5. Other price risk

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

| | January to June, 2020 | | January to June, 2019 | |
|---|---|-------------------|---|-------------------|
| Prices of securities at the reporting date | Other comprehensive income, net of tax | Net income | Other comprehensive income, net of tax | Net income |
| Increase by 1% | \$ 2,284 | - | 2,692 | - |
| Decrease by 1% | (2,284) | - | (2,692) | - |

6. Fair value and information

(1) Type and fair value of financial instruments

The consolidated company's financial assets at fair value through profit and loss or through other comprehensive income are measured at fair value on a recurring basis. The carrying amount and fair value of financial assets and liabilities (including information of fair value hierarchy; however, the fair value of financial instruments not at fair value and whose carrying amounts are reasonable approximations of their fair value and lease liabilities is not required to be disclosed) were as follows:

| | Carrying Amount | 2020.6.30 | | | |
|---|------------------------|-------------------|----------------|----------------|--------------|
| | | Fair value | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through other comprehensive income - current | | | | | |
| Domestic listed stocks | \$ 115,866 | 115,866 | - | - | 115,866 |
| Financial assets at fair value through other comprehensive income - non-current | | | | | |
| Domestic unlisted stocks | \$ 112,539 | - | - | 112,539 | 112,539 |
| Convertible bonds payable (including bonds due within one year) | \$ 246,038 | 250,500 | - | - | 250,500 |

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| | 2019.12.31 | | | | |
|---|--------------------|------------|---------|---------|---------|
| | Carrying Amount | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through other comprehensive income - current | | | | | |
| Domestic listed stocks | \$ 143,891 | 143,891 | - | - | 143,891 |
| Financial assets at fair value through other comprehensive income - non-current | | | | | |
| Domestic unlisted stocks | \$ 117,349 | - | - | 117,349 | 117,349 |
| Convertible bonds payable (including bonds due within one year) | \$ 245,518 | 264,571 | - | - | 264,571 |

| | 2019.6.30 | | | | |
|---|--------------------|------------|---------|---------|---------|
| | Carrying Amount | Fair value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through other comprehensive income - current | | | | | |
| Domestic listed stocks | \$ 148,365 | 148,365 | - | - | 148,365 |
| Financial assets at fair value through other comprehensive income - non-current | | | | | |
| Domestic unlisted stocks | \$ 120,871 | - | - | 120,871 | 120,871 |
| Convertible bonds payable (including bonds due within one year) | \$ 244,876 | 252,073 | - | - | 252,073 |

- (2) Fair value valuation technique of financial instruments not at fair value
The methods and assumptions adopted by the consolidated company for valuating instruments not at fair value were as follows:
For financial assets at amortized cost, if transaction prices or quotes from market maker are available, the latest transaction price and quotes shall be the basis for fair value measurement. If market values are not available, valuation method would be adopted. Estimations and assumptions adopted in the valuation method are to measure fair value at discounted cash flows.
- (3) Fair value valuation technique of financial instruments at fair value
The redemption rights of embedded derivatives are based on an appropriate option pricing model.
- (4) Transfers between Level 1 and Level 2 fair value hierarchy: None.

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Notes to the Consolidated Financial Report (continued)

(5) Details of changes in Level 3 fair value hierarchy:

| | Financial asset at fair value through other comprehensive income - equity investments without an active market |
|--|---|
| Balance as of January 1, 2020 | \$ 117,349 |
| Total gains and losses | |
| Recognized in other comprehensive income | (4,810) |
| Balance as of June 30, 2020 | \$ 112,539 |
| Balance as of January 1, 2019 | \$ 121,084 |
| Total gains and losses | |
| Recognized in other comprehensive income | (213) |
| Balance as of June 30, 2019 | \$ 120,871 |

The aforementioned total gains and losses are recognized under "unrealized valuation gains (losses) from investments in equity instruments at fair value through other comprehensive income." As of June 30, 2020 and 2019, gains or losses of assets in the book amounted to gain of NT\$21,739 thousand and loss of NT\$3,129 thousand, respectively.

(6) Quantitative information for fair value measurement of significant unobservable inputs (level 3)

The consolidated company classified financial assets at fair value through other comprehensive income - non-current as level 3. It had multiple significant unobservable inputs which were independent from each other; therefore, there is no correlation between them. The quantitative information of significant unobservable inputs was as follows:

| Item | Valuation technique | Significant unobservable input | Relationship between significant unobservable inputs and fair value measurement |
|--|------------------------|---|---|
| Financial asset at fair value through other comprehensive income - non-current (equity investments without an active market) | Net asset value method | <ul style="list-style-type: none"> • Net asset value • Marketability discount (10% and 20% for June 30, 2020, December 31, 2019 and June 30, 2019) | <ul style="list-style-type: none"> • N/A • The higher the marketability discount, the lower the fair value. |
| Financial asset at fair value through other comprehensive income - non-current (equity investments without an active market) | Market approach | <ul style="list-style-type: none"> • Price-book ratio (3.39 for June 30, 2020 and December 31, 2019; 4.57 and 2.23 for June 30, 2019) • Marketability discount (25% for June 30, 2020 and December 31, 2019; 20% and 25% for June 30, 2019) | <ul style="list-style-type: none"> • The higher the price-book ratio, the higher the fair value. • The higher the marketability discount, the lower the fair value. |

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(XXII) Financial risk management

There were no significant changes in the objectives and policies of the consolidated company's financial risk management comparing to those disclosed in Note VI(XXIV) of the consolidated financial statements for the year ended December 31, 2019.

(XXIII) Capital management

(XXIV) The consolidated company's capital management objectives, policies and procedures were consistent with those disclosed in the consolidated financial statements for the year ended December 31, 2019. In addition, there were no material changes in the aggregate quantitative information of capital management items comparing to the information disclosed in the consolidated financial statements for the year ended December 31, 2019. For relevant information, please refer to Note VI(XXV) of the consolidated financial statements for the year ended December 31, 2019.

(XXV) Non-cash financing activities

The consolidated company's non-cash investing and financing activities for the six months ended June 30, 2020 and 2019 were as follows:

1. For non-cash investing and financing activities where convertible corporate bonds were converted into common stocks, please refer to Note VI(XII) for details.
2. For right-of-use assets obtained via leases, please refer to Note VI(VII).
3. Reconciliation of liabilities from financing activities was as follows:

| | 2020.1.1 | Cash Flow | Non-cash Changes | | 2020.6.30 |
|--|---------------------|------------------|-------------------------|---------------|------------------|
| | | | Change in Exchange Rate | Other Changes | |
| Short-term loans | \$ 924,840 | (176,987) | 6,777 | - | 754,630 |
| First issuance of convertible corporate bonds | 2,095 | (1,300) | - | (795) | - |
| Second issuance of convertible corporate bonds | 243,423 | - | - | 2,615 | 246,038 |
| Lease liabilities | 19,852 | (4,358) | - | 15,975 | 31,469 |
| | \$ 1,190,210 | (182,645) | 6,777 | 17,795 | 1,032,137 |

| | 2019.1.1 | Cash Flow | Non-cash Changes | | 2019.6.30 |
|--|---------------------|------------------|-------------------------|---------------|------------------|
| | | | Change in Exchange Rate | Other Changes | |
| Short-term loans | \$ 1,103,585 | (241,160) | 4,235 | - | 866,660 |
| First issuance of convertible corporate bonds | 3,988 | - | - | 48 | 4,036 |
| Second issuance of convertible corporate bonds | 238,285 | - | - | 2,555 | 240,840 |
| Lease liabilities | 19,495 | (2,584) | - | - | 16,911 |
| | \$ 1,365,353 | (243,744) | 4,235 | 2,603 | 1,128,447 |

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Notes to the Consolidated Financial Report (continued)

VII. Related Party Transactions

(I) Related parties' name and relationships

| <u>Name of related party</u> | <u>Relationship with the consolidated company</u> |
|---|---|
| Shenzhen Gather Electronics Science Co., Ltd. | An associate to the consolidated company |
| INPAQ Technology Co., Ltd. | Key management of the consolidated company |

(II) Significant transactions with related parties

1. Operating revenue

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| Shenzhen Gather Electronics Science Co., Ltd. | \$ 4,860 | 9,467 | 12,392 | 17,061 |

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 price to related parties and non-related parties is not significantly different. The credit terms of related parties are 90 days from end of month. The credit terms of general customers are determined by the individual client's past transaction experience and the results of credit evaluation and they range between 60 to 150 days from end of month.

2. Purchase

| | <u>April to June, 2020</u> | <u>April to June, 2019</u> | <u>January to June, 2020</u> | <u>January to June, 2019</u> |
|---|----------------------------|----------------------------|------------------------------|------------------------------|
| Shenzhen Gather Electronics Science Co., Ltd. | \$ 1,828 | 1,159 | 2,850 | 1,600 |

The purchase price from related parties is based on the general market price. The payment terms are 30 to 90 days from end of month for general suppliers, and 90 days from end of month for related parties.

3. Receivables from related parties

| Financial Statement | | | | |
|----------------------------|---|------------------|-------------------|------------------|
| <u>Account</u> | <u>Category of Related Parties</u> | <u>2020.6.30</u> | <u>2019.12.31</u> | <u>2019.6.30</u> |
| Accounts receivable | Shenzhen Gather Electronics Science Co., Ltd. | \$ 13,738 | 22,724 | 19,443 |

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Notes to the Consolidated Financial Report (continued)

4. Payables to related parties

| Financial Statement | | | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|----------------------------|---|----|------------------|-------------------|------------------|
| Account | Category of Related Parties | | | | |
| Accounts receivable | Shenzhen Gather Electronics Science Co., Ltd. | \$ | 2,315 | 4,968 | 1,788 |

5. Other transactions

The consolidated company engaged in service contracts associated with winding machines with related parties. Service income generated were NT\$422 thousand for both the three months and six months ended June 30, 2020. As of June 30, 2020, receivables from related parties from the above transactions amounted to NT\$442 thousand.

(III) Major managerial personnel transactions

| | April to June, 2020 | April to June, 2019 | January to June, 2020 | January to June, 2019 |
|------------------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| Short-term employee benefits | \$ 10,368 | 6,990 | 17,056 | 12,308 |
| Benefits after retirement | 103 | 120 | 207 | 199 |
| | \$ 10,471 | 7,110 | 17,263 | 12,507 |

VIII. Pledged Assets

Details of carrying amount of assets pledged by the consolidated company were as follows:

| Assets | Pledge | 2020.6.30 | 2019.12.31 | 2019.6.30 |
|--------------------------------------|--|------------------|-------------------|------------------|
| Other financial assets - non-current | Purchase guarantee, investment guarantee, etc. | \$ 25,454 | 25,458 | 26,561 |

IX. Significant Contingent Liabilities and Unrecognized Contract Commitments: None.

X. Significant Disaster Loss: None.

XI. Significant Subsequent Events: None.

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Notes to the Consolidated Financial Report (continued)

XII. Others

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

| Function Type | April to June, 2020 | | | April to June, 2019 | | |
|------------------------------------|---------------------|-------------------|---------|---------------------|-------------------|--------|
| | Operating cost | Operating expense | Total | Operating cost | Operating expense | Total |
| Employee benefit expenses | | | | | | |
| Salary expense | 64,304 | 42,822 | 107,126 | 48,999 | 29,918 | 78,917 |
| Labor and health insurance expense | 134 | 1,472 | 1,606 | 129 | 1,426 | 1,555 |
| Pension expense | 64 | 792 | 856 | 127 | 834 | 961 |
| Other employee benefits expenses | 915 | 1,819 | 2,734 | 715 | 1,390 | 2,105 |
| Depreciation | 51,227 | 6,963 | 58,190 | 41,357 | 5,470 | 46,827 |
| Amortization | 20 | 1,045 | 1,065 | 28 | 1,071 | 1,099 |

| Function Type | January to June, 2020 | | | January to June, 2019 | | |
|------------------------------------|-----------------------|-------------------|---------|-----------------------|-------------------|---------|
| | Operating cost | Operating expense | Total | Operating cost | Operating expense | Total |
| Employee benefit expenses | | | | | | |
| Salary expense | 96,030 | 74,551 | 170,581 | 81,724 | 53,582 | 135,306 |
| Labor and health insurance expense | 263 | 2,945 | 3,208 | 239 | 2,822 | 3,061 |
| Pension expense | 174 | 1,655 | 1,829 | 244 | 1,655 | 1,899 |
| Other employee benefits expenses | 1,383 | 3,345 | 4,728 | 1,252 | 3,199 | 4,451 |
| Depreciation | 97,117 | 13,343 | 110,460 | 81,077 | 10,981 | 92,058 |
| Amortization | 38 | 2,067 | 2,105 | 38 | 2,333 | 2,371 |

XIII. Supplementary Disclosures

(I) Information on significant transactions

Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," information of significant transactions which shall be disclosed by the consolidated company is as follows:

1. Financing provided to others:

| No. | Lending Company | Borrower | Transaction Account | Whether A Related Party | Maximum Balance in Current Period | Ending Balance | Amount Actually Drawn | Interest rate range | Nature of Financing | Business Transaction Amount | Reason for Short-term Financing | Loss Allowance | Collateral Name | Collateral Value | Limit on Financing to A Single Party | Total Limit on Financing |
|-----|-----------------|-----------|-------------------------------------|-------------------------|-----------------------------------|----------------|-----------------------|---------------------|----------------------|-----------------------------|---------------------------------|----------------|-----------------|------------------|--------------------------------------|--------------------------|
| 0 | The Company | APAQ Wuxi | Other receivables - related parties | Yes | 453,750 | 444,450 | - | 2.896% | Business transaction | 1,406,071 | | - | | - | 770,025 | 770,025 |

Note 1: For firms or companies having business relationship with the Company, the financing amount to an individual party is limited to the transaction amount between both parties.

Note 2: Total amount of financing to external parties shall be limited to 40% of the equity attributable to the owners of the parent company in the balance sheet of the Company's consolidated financial report as audited (reviewed) by CPAs in the most recent period.

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

2. Endorsement or guarantee provided to others:

| No. | Name of Endorsement/Guarantee Provider | Object of Endorsements/Guarantees | | Limit on Endorsements/Guarantees Provided for A Single Party | Maximum Balance in Current Period | Ending Balance of Endorsement and Guarantee | Amount Actually Drawn | 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 to A Subsidiary | Guarantee Provided by A Subsidiary to Parent Company | Guarantee Provided to Subsidiaries in Mainland China |
|-----|--|-----------------------------------|------------|--|-----------------------------------|---|-----------------------|--|--|--|--|--|--|
| | | Name | Relation | | | | | | | | | | |
| 0 | The Company | APAQ Wuxi | Subsidiary | 1,925,063 | 453,750 | 444,450 | - | - | 23.09% | 1,925,063 | Y | N | Y |

Note 1: The amount of the endorsements/guarantees to a single enterprise shall be limited to the amount of equity attributable to the owners of the parent company in the balance sheet of the Company's consolidated financial report as audited (reviewed) by CPAs in the most recent period.

Note 2: The total amount of endorsements/guarantees to external parties shall be limited to the amount of equity attributable to the owners of the parent company in the balance sheet of the Company's consolidated financial report as audited (certified) by CPAs in the most recent period.

3. Holding of marketable securities at the end of the period (excluding investments in subsidiaries, associates and joint ventures):

| Name of Held Company | Type and Name of Marketable Securities | Relationship with the Issuer | Financial Statement Account | End of the Period | | | | Remarks |
|----------------------|--|------------------------------|--|-------------------|-----------------|----------------|------------|---------|
| | | | | Number of Shares | Carrying Amount | Shareholding % | Fair value | |
| The Company | CHAINTECH Technology Corporation | None | Financial assets at fair value through other comprehensive income - current- | 4,710 | 115,866 | 4.64% | 115,866 | |
| The Company | Foxfortune Technology Ventures Limited | None | Financial assets at fair value through other comprehensive income - non-current- | 1,000 | 40,293 | 5.80% | 40,293 | |
| The Company | Inpaq Korea | None | Financial assets at fair value through other comprehensive income - non-current- | 18 | 1,068 | 10.73% | 1,068 | |
| The Company | Chia Lin Venture Capital Co., Ltd. | None | Financial assets at fair value through other comprehensive income - non-current- | 1,800 | 15,952 | 3.64% | 15,952 | |
| The Company | Kuan Kun Electronic Enterprise Co., Ltd. | None | Financial assets at fair value through other comprehensive income - non-current- | 3,770 | 50,722 | 5.39% | 50,722 | |
| The Company | Ching Chiao Technology Co., Ltd. | None | Financial assets at fair value through other comprehensive income - non-current- | 240 | 4,504 | 3.20% | 4,504 | |

4. Individual securities acquired or disposed of with accumulated amount of at least NT\$300 million or 20 percent of the paid-in capital: None.
5. Acquisition of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital: None.
6. Disposal of individual real estate with amount of at least NT\$300 million or 20 percent of the paid-in capital: None.
7. Related party transactions with purchase or sales amount of at least NT\$100 million or 20 percent of the paid-in capital: None
8. Receivables from related parties of at least NT\$100 million or 20 percent of the paid-in capital: None
9. Trading in derivative instruments: Please refer to Notes VI(II).

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

10. Business relation and important transactions between parent company and subsidiaries:

| No. | Name of Trader | Name of Counterparty | Relation with the Trader | Conditions of Transactions | | | |
|-----|----------------|----------------------|--------------------------------|----------------------------|---------|---------------------------|---|
| | | | | Account | Amount | Terms of Transaction | Ratio to Consolidated Revenue or Total Assets |
| 0 | The Company | APAQ Wuxi | Parent company to a subsidiary | Purchases | 563,098 | 60 days from end of month | 56% |
| 0 | The Company | APAQ Wuxi | Parent company to a subsidiary | Sales | 45,467 | 60 days from end of month | 5% |
| 0 | The Company | APAQ Wuxi | Parent company to a subsidiary | Accounts receivable | 39,860 | - | 1% |
| 0 | The Company | APAQ Wuxi | Parent company to a subsidiary | Accounts payable | 387,796 | - | 11% |
| 0 | The Company | APAQ Wuxi | Parent company to a subsidiary | Other receivables | 141 | - | -% |

(II) Information on reinvestment:

The information on investees is as follows (excluding investees in Mainland China):

| Name of Investor | Name of Investees | Location | Primary Business | Original Investment Amount | | Ending Balance | | | Net Income (Loss) of the Investee | Share of Profit/Loss | Remarks |
|------------------|-------------------|----------|------------------|----------------------------|------------------|----------------|---------|-----------------|-----------------------------------|----------------------|---------|
| | | | | End of the Period | End of Last Year | Shares | % | Carrying Amount | | | |
| The Company | APAQ Samoa | Samoa | Holding | 1,288,569 | 1,288,569 | 41,504 | 100.00% | 1,556,420 | (37,769) | (44,335) | Note 1 |

Note 1: Share of profit/loss includes adjustments for upstream transactions between affiliates.

Note 2: Relevant transactions and ending balances have been eliminated in the consolidated financial statements.

(III) Information on investments in Mainland China:

1. Information on reinvestments in Mainland China

| Name of Investee | Primary Business | Paid-in Capital (Note 6) | Method of Investment | Beginning Balance of Accumulated Outflow of Investment from Taiwan | Remittance or Recovery of Investment the Current Period | | Ending Balance of Accumulated Outflow of Investment from Taiwan | Net Income (Loss) of the Investee | The Company's Percentage of Direct or Indirect Ownership | Investment Gains (Losses) Recognized in the Current Period | Carrying Amount of Investment at the End of Period | Ending Balance of Accumulated Inward Remittance of Earnings | Remark |
|---|---|---------------------------------|----------------------|--|---|----------|---|-----------------------------------|--|--|--|---|--------|
| | | | | | Outward Remittance (Note 6) | Recovery | | | | | | | |
| APAQ Wuxi | Production and sales of electronic components | 1,146,681 (US\$38,700 thousand) | Note 1 | 1,203,723 (US\$38,700 thousand) | - | - | 1,203,723 (US\$38,700 thousand) | (34,510) | 100.00% | (34,510) Note 3 | 1,521,361 | - | |
| Shenzhen Gather Electronics Science Co., Ltd. | Production and sales of electronic components | 41,853 (RMB10,000 thousand) | Note 1 | 44,898 (RMB9,800 thousand) | - | - | 44,898 (RMB9,800 thousand) | 329 | 35.00% | 403 Note 4 | 44,743 | - | |
| APAQ Hubei | Production and sales of electronic components | 118,520 (US\$4,000 thousand) | Note 2 | 15,590 (US\$500 thousand) | 104,960 (US\$3,500 thousand) | - | 120,550 (US\$4,000 thousand) | 9,033 | 100.00% | 9,033 Note 3 | 129,825 | - | |

2. Limits of reinvestments in Mainland China:

| Accumulated investment remitted from Taiwan to Mainland China at the end of the period (Note 6) | Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA) (Note 6) | Upper limit on investment authorized by Investment Commission, MOEA (Note 7) |
|---|---|--|
| 1,369,171 (US\$42,700 thousand and RMB9,800 thousand) | 1,517,321 (US\$47,700 thousand and RMB9,800 thousand) | (Note 7) |

Note 1. Investment in Mainland China indirectly through a third area.

Note 2. Direct investment in Mainland China.

Note 3. It was recognized based on financial statements of the same period reviewed by CPAs.

Note 4. It was recognized based on financial statements of the same period not

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

reviewed by CPAs.

Note 5. Relevant transactions and ending balances have been eliminated in the consolidated financial statements.

Note 6. The paid-in capital is converted into NT dollars at the exchange rate on the balance sheet date. The amount of investment remitted in the current period is converted into NT dollars at previous exchange rates. The investment amount approved by Investment Commission, MOEA of US\$47,700 thousand and RMB 9,800 thousand is converted into NT dollars at previous exchange rates. In addition, as of June 30, 2020, there was still an approved investment amount of US\$5,000,000, which had not yet been remitted.

Note 7. The Company has obtained the certificate letter of enterprise headquarters operation scope issued by the Industrial Development Bureau, MOEA. The upper limits for investments in Mainland China set by the Investment Commission, MOEA no longer apply.

3. Significant transactions:

Please refer to the "Information on Significant Transactions" for direct or indirect material transactions between the consolidated company and investees in China (which have been eliminated during the preparation of consolidated financial statements) for the six months ended June 30, 2020.

(IV) Information on major shareholders:

Unit: Shares

| Name of Major Shareholder | Shareholding No. of Shares Held | Shareholding % |
|-------------------------------------|---------------------------------------|-------------------|
| Hua Cheng Venture Capital Co., Ltd. | 10,668,012 | 12.62% |
| Prosperity Dielectrics Co., Ltd. | 5,280,000 | 6.24% |
| INPAQ Technology Co., Ltd. | 4,776,329 | 5.65% |
| Walton Advanced Engineering, Inc. | 4,591,000 | 5.43% |

Note: The major shareholders in this table are shareholders holding more than 5% of the common and preference stocks that have completed delivery of non-physical registration (including treasury stocks) on the last business day of each quarter calculated by the Taiwan Depository & Clearing Corporation. However, the share capital recorded in the Company's financial report and the number of shares actually delivered by the Company without physical registration may differ due to calculation basis.

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XIV. Segment 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 statements of comprehensive income for revenue (revenue from external customers) and income/loss of the segment and the consolidated balance sheets for segment information.