

Adlink Technology Inc. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Adlink Technology Inc.

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters of the consolidated financial statements for the year ended December 31, 2019 are stated as follows:

Impairment of Goodwill

In order to expand the “Industrial Internet of Things” market, Adlink Technology Inc. entered into a share purchase agreement for the acquisition of a 100% equity interest in PrismTech Group Limited. The acquisition resulted in the recognition of goodwill of \$494,546 thousand which mainly represents the control premium of \$544,895 thousand included in the cost of the acquisition, which was based on the acquisition cost and price allocation report issued by external independent specialists. Since the management’s assessment of the relevant cash-generating units is based on the management’s judgment and estimation, the recognition of the impairment of goodwill is deemed to be a key audit matter. Refer to Notes 5 and 15 to the consolidated financial statements for details of the impairment of goodwill.

Our responsive audit procedures performed in respect of the aforesaid impairment included obtaining of future business plans of PrismTech Group Limited from the management and reviewing of recent performance and industry trends of the relevant cash-generating units in order to evaluate the process and the basis of the sales growth rate and rate of return predicted for the future business plans. We further consulted our internal financial advisors to assess whether the assumptions (i.e. the valuation method used to measure the recoverable amounts and the discount rate) used by external specialists employed by the management were consistent with the current situation of the Group and its industry. We also performed our own calculations of the impairment to verify the assumptions.

Other Matter

We have also audited the parent company only financial statements of Adlink Technology Inc. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance, including the audit committee, are responsible for overseeing the Group’s financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wen-Chi Kuo and Cheng-Ming Lee.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 19, 2020

Notice to Readers

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

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

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents(Note 6)	\$ 1,873,160	22	\$ 1,419,132	17
Financial assets at fair value through profit or loss (Note 7)	100,313	1	236	-
Financial assets at amortized cost (Note 8)	48,810	1	1,536	-
Notes receivable (Note 9)	18,320	-	101,146	1
Trade receivables (Note 9)	1,978,255	23	1,911,892	23
Trade receivables from related parties (Note 32)	22,964	-	15,514	-
Other receivables (Note 9)	61,453	1	44,582	1
Current tax assets	-	-	2,533	-
Inventories (Note 10)	1,999,986	24	2,596,421	32
Prepayments (Notes 16, 17 and 33)	66,502	1	104,057	1
Other current assets	4,229	-	1,978	-
Total current assets	<u>6,173,992</u>	<u>73</u>	<u>6,199,027</u>	<u>75</u>
NON-CURRENT ASSETS				
Investments accounted for using the equity method (Note 12)	44,942	1	40,820	-
Property, plant and equipment (Notes 13, 32 and 33)	1,074,831	13	837,172	10
Right-of-use assets (Notes 14 and 33)	190,125	2	-	-
Intangible assets (Note 15)	648,452	8	844,064	10
Deferred tax assets (Note 27)	254,149	3	240,668	3
Refundable deposits	40,122	-	42,966	1
Prepayments for leases (Notes 16 and 33)	-	-	54,958	1
Other non-current assets (Note 17)	2,909	-	19,597	-
Total non-current assets	<u>2,255,530</u>	<u>27</u>	<u>2,080,245</u>	<u>25</u>
TOTAL	<u>\$ 8,429,522</u>	<u>100</u>	<u>\$ 8,279,272</u>	<u>100</u>
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Notes 18 and 33)	\$ 723,762	9	\$ 617,854	7
Contract liabilities (Notes 25)	423,121	5	148,310	2
Notes payable (Note 19)	-	-	595	-
Trade payables (Note 19)	1,303,152	15	1,670,717	20
Trade payables to related parties (Note 32)	4,418	-	4,490	-
Other payables (Notes 20 and 32)	851,073	10	788,557	10
Current tax liabilities	96,436	1	112,157	1
Provisions (Note 22)	56,711	1	59,756	1
Lease liabilities (Note 14)	75,341	1	-	-
Finance lease payables (Note 21)	-	-	1,749	-
Other current liabilities	9,236	-	6,406	-
Total current liabilities	<u>3,543,250</u>	<u>42</u>	<u>3,410,591</u>	<u>41</u>
NON-CURRENT LIABILITIES				
Long-term borrowings (Note 18)	45,000	-	200,000	2
Provisions (Note 22)	38,827	-	37,434	1
Deferred tax liabilities (Note 27)	-	-	4,160	-
Lease liabilities (Note 14)	62,109	1	-	-
Finance lease payables (Note 21)	-	-	8,347	-
Net defined benefit liabilities (Note 23)	53,121	1	50,254	1
Total non-current liabilities	<u>199,057</u>	<u>2</u>	<u>300,195</u>	<u>4</u>
Total liabilities	<u>3,742,307</u>	<u>44</u>	<u>3,710,786</u>	<u>45</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 24)				
Ordinary shares	2,174,973	26	2,175,232	26
Capital surplus	1,515,716	18	1,553,448	19
Retained earnings				
Legal reserve	585,854	7	561,410	7
Special reserve	135,239	2	154,353	2
Unappropriated earnings	445,321	5	249,454	3
Total retained earnings	1,166,414	14	965,217	12
Other equity				
Exchange differences on translating foreign operations	(180,850)	(2)	(135,239)	(2)
Unearned employee benefits	-	-	(656)	-
Total other equity	(180,850)	(2)	(135,895)	(2)
Total equity attributable to owners of the Company	4,676,253	56	4,558,002	55
NON-CONTROLLING INTERESTS	10,962	-	10,484	-
Total equity	<u>4,687,215</u>	<u>56</u>	<u>4,568,486</u>	<u>55</u>
TOTAL	<u>\$ 8,429,522</u>	<u>100</u>	<u>\$ 8,279,272</u>	<u>100</u>

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

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 25 and 32)	\$ 10,497,070	100	\$ 10,477,108	100
OPERATING COSTS (Notes 10, 26 and 32)	<u>6,208,198</u>	<u>59</u>	<u>6,750,806</u>	<u>64</u>
GROSS PROFIT	4,288,872	41	3,726,302	36
UNREALIZED GAIN (LOSS) ON TRANSACTIONS WITH ASSOCIATES	<u>(77)</u>	<u>-</u>	<u>565</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>4,288,795</u>	<u>41</u>	<u>3,726,867</u>	<u>36</u>
OPERATING EXPENSES (Notes 26 and 32)				
Selling and marketing	1,104,863	11	1,094,914	10
General and administrative	976,233	9	814,469	8
Research and development	1,437,059	14	1,523,887	15
Expected credit loss	<u>3,450</u>	<u>-</u>	<u>3,720</u>	<u>-</u>
Total operating expenses	<u>3,521,605</u>	<u>34</u>	<u>3,436,990</u>	<u>33</u>
PROFIT FROM OPERATIONS	<u>767,190</u>	<u>7</u>	<u>289,877</u>	<u>3</u>
NON-OPERATING INCOME AND EXPENSES (Note 26)				
Other income	97,804	1	75,778	1
Other gains and losses	(196,474)	(2)	(35,262)	(1)
Finance costs	(30,171)	-	(16,733)	-
Share of loss of associates (Note 12)	<u>(22,129)</u>	<u>-</u>	<u>(11,631)</u>	<u>-</u>
Total non-operating income and expenses	<u>(150,970)</u>	<u>(1)</u>	<u>12,152</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	616,220	6	302,029	3
INCOME TAX EXPENSE (Note 27)	<u>172,473</u>	<u>2</u>	<u>57,420</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>443,747</u>	<u>4</u>	<u>244,609</u>	<u>3</u>

(Continued)

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 23)	\$ (3,373)	-	\$ 92	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	<u>674</u>	<u>-</u>	<u>804</u>	<u>-</u>
	<u>(2,699)</u>	<u>-</u>	<u>896</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 24)	(57,111)	-	17,436	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 24 and 27)	<u>11,402</u>	<u>-</u>	<u>2,199</u>	<u>-</u>
	<u>(45,709)</u>	<u>-</u>	<u>19,635</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(48,408)</u>	<u>-</u>	<u>20,531</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 395,339</u>	<u>4</u>	<u>\$ 265,140</u>	<u>3</u>
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$ 443,171	4	\$ 244,442	2
Non-controlling interests	<u>576</u>	<u>-</u>	<u>167</u>	<u>-</u>
	<u>\$ 443,747</u>	<u>4</u>	<u>\$ 244,609</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$ 394,861	4	\$ 264,452	3
Non-controlling interests	<u>478</u>	<u>-</u>	<u>688</u>	<u>-</u>
	<u>\$ 395,339</u>	<u>4</u>	<u>\$ 265,140</u>	<u>3</u>
EARNINGS PER SHARE (Note 28)				
Basic	<u>\$ 2.04</u>		<u>\$ 1.12</u>	
Diluted	<u>\$ 2.02</u>		<u>\$ 1.12</u>	

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

(Concluded)

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company												Non-controlling Interests	Total Equity
									Other Equity					
	Total Share Capital				Retained Earnings				Exchange Differences on Translating Foreign Operations	Unearned Employee Benefit	Total Other Equity	Total Equity Attributable to Owners of the Company		
	Ordinary Shares	Advance Receipts for Share Capital	Total Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total Retained Earnings						
BALANCE AT JANUARY 1, 2018	\$ 2,174,827	\$ 405	\$ 2,175,232	\$ 1,575,041	\$ 522,524	\$ 74,736	\$ 427,151	\$ 1,024,411	\$ (154,353)	\$ (4,148)	\$ (158,501)	\$ 4,616,183	\$ 9,796	\$ 4,625,979
Appropriation of 2017 earnings														
Legal reserve	-	-	-	-	38,886	-	(38,886)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	79,617	(79,617)	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT\$1.4 per share	-	-	-	-	-	-	(304,532)	(304,532)	-	-	-	(304,532)	-	(304,532)
Issue of cash from capital surplus- NT\$0.1 per share	-	-	-	(21,752)	-	-	-	-	-	-	-	(21,752)	-	(21,752)
Issue of ordinary shares under employee share options	405	(405)	-	-	-	-	-	-	-	-	-	-	-	-
Compensation costs of share-based payments recognized by the Company	-	-	-	159	-	-	-	-	-	3,492	3,492	3,651	-	3,651
Net profit for the year ended December 31, 2018	-	-	-	-	-	-	244,442	244,442	-	-	-	244,442	167	244,609
Other comprehensive income for the year ended December 31, 2018, net of income tax	-	-	-	-	-	-	896	896	19,114	-	19,114	20,010	521	20,531
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	245,338	245,338	19,114	-	19,114	264,452	688	265,140
BALANCE AT DECEMBER 31, 2018	2,175,232	-	2,175,232	1,553,448	561,410	154,353	249,454	965,217	(135,239)	(656)	(135,895)	4,558,002	10,484	4,568,486
Appropriation of 2018 earnings														
Legal reserve	-	-	-	-	24,444	-	(24,444)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(19,114)	19,114	-	-	-	-	-	-	-
Cash dividends distributed by the Company - NT\$1.1 per share	-	-	-	-	-	-	(239,275)	(239,275)	-	-	-	(239,275)	-	(239,275)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	5,514	-	-	-	-	-	-	-	5,514	-	5,514
Issue of cash from capital surplus- NT\$0.2 per share	-	-	-	(43,505)	-	-	-	-	-	-	-	(43,505)	-	(43,505)
Retirement of restricted shares for employees	(259)	-	(259)	259	-	-	-	-	-	-	-	-	-	-
Compensation costs of share-based payments recognized by the Company	-	-	-	-	-	-	-	-	-	656	656	656	-	656
Net profit for the year ended December 31, 2019	-	-	-	-	-	-	443,171	443,171	-	-	-	443,171	576	443,747
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	-	-	-	(2,699)	(2,699)	(45,611)	-	(45,611)	(48,310)	(98)	(48,408)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	-	440,472	440,472	(45,611)	-	(45,611)	394,861	478	395,339
BALANCE AT DECEMBER 31, 2019	\$ 2,174,973	\$ -	\$ 2,174,973	\$ 1,515,716	\$ 585,854	\$ 135,239	\$ 445,321	\$ 1,166,414	\$ (180,850)	\$ -	\$ (180,850)	\$ 4,676,253	\$ 10,962	\$ 4,687,215

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

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 616,220	\$ 302,029
Adjustments for:		
Depreciation expenses	248,951	177,283
Amortization expenses	95,755	100,253
Expected credit loss recognized on trade receivables	3,450	3,720
Net (gain) loss on fair value changes of financial assets at fair value through profit or loss	(77)	136
Finance costs	30,171	16,733
Interest income	(7,421)	(4,888)
Dividend income	(465)	(469)
Compensation costs of share-based payments	656	3,651
Share of loss of associates	22,129	11,631
Gain on disposal of property, plant and equipment	(83)	(617)
Impairment loss recognized on intangible assets	159,996	21,408
(Reversal of) write-downs of inventories	(24,582)	105,177
Unrealized gain (loss) on the transactions with associates	77	(565)
Net loss (gain) on foreign currency exchange	36,761	(21,214)
Gain on lease modifications	(32)	-
Amortization of prepayments for leases	-	1,631
Changes in operating assets and liabilities		
Notes receivable	82,826	(10,031)
Trade receivables	(122,747)	(223,559)
Trade receivables from related parties	(7,450)	(1,711)
Other receivables	(16,871)	(2,698)
Inventories	628,262	(423,829)
Prepayments	45,206	4,136
Other current assets	(2,251)	8,063
Contract liabilities	275,056	29,726
Notes payable	(595)	(1,632)
Trade payables	(368,064)	235,555
Trade payables to related parties	(72)	(405)
Other payables	51,723	(16,328)
Provisions	(1,652)	3,137
Other current liabilities	2,585	(6,355)
Net defined benefit liabilities	(506)	(665)
Cash generated from operations	1,746,956	309,303
Interest received	7,421	4,888
Interest paid	(30,214)	(18,151)
Income tax paid	(191,226)	(134,438)
Net cash generated from operating activities	1,532,937	161,602

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ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at amortized cost	\$ (48,856)	\$ -
Proceeds from sale of financial assets at amortized cost	1,553	-
Purchase of financial assets at fair value through profit or loss	(100,000)	-
Acquisition of investments accounted for using the equity method	(13,005)	-
Increase in prepayments for investments	-	(9,252)
Payments for property, plant and equipment	(436,486)	(86,551)
Proceeds from disposal of property, plant and equipment	226	751
Decrease (increase) in refundable deposits	2,844	(2,613)
Payments for computer software	(50,306)	(60,455)
Increase in prepayments for equipment	(1,943)	(1,175)
Dividends received	<u>465</u>	<u>469</u>
Net cash used in investing activities	<u>(645,508)</u>	<u>(158,826)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	990,370	1,060,179
Repayments of short-term borrowings	(870,563)	(957,376)
Proceeds from long-term borrowings	145,000	300,000
Repayments of long-term borrowings	(300,000)	(100,000)
Finance lease payables	-	10,096
Repayment of the principal portion of lease liabilities	(87,582)	-
Cash dividends paid	<u>(282,780)</u>	<u>(326,284)</u>
Net cash used in financing activities	<u>(405,555)</u>	<u>(13,385)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(27,846)</u>	<u>27,167</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	454,028	16,558
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,419,132</u>	<u>1,402,574</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,873,160</u>	<u>\$ 1,419,132</u>

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

(Concluded)

ADLINK TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Adlink Technology Inc. (the “Company”) was incorporated in the Republic of China (ROC) in August 1995. The Company mainly manufactures and sells hardware, software and peripheral devices of industrial computers.

The Company’s shares were previously listed on the Taipei Exchange (TPEX) Mainboard from March 2002 until it became listed on the Taiwan Stock Exchange (TWSE) in November 2004.

The consolidated financial statements of the Company and its subsidiaries, collectively referred to as the “Group”, are presented in the Company’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 19, 2020.

3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. Application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC) and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (the “FSC”)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights of land located in China were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- 1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

For leases previously classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 are determined as at the carrying amounts of the respective leased assets and finance lease payables as of December 31, 2018.

The lessee's weighted average incremental borrowing rate range applied to lease liabilities recognized on January 1, 2019 is 1.01%-4.71%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 203,438
Less: Recognition exemption for short-term leases	(59,428)
Less: Recognition exemption for leases of low-value assets	<u>(303)</u>
Undiscounted amount on January 1, 2019	<u>\$ 143,707</u>
	(Continued)

Discounted amount using the incremental borrowing rate on January 1, 2019	\$ 140,373
Add: Finance lease liabilities (excluding the amounts applied for the exemption for short-term leases and leases of low-value assets) on December 31, 2018	<u>10,096</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 150,469</u> (Concluded)

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Prepayments for leases - current	\$ 1,601	\$ (1,601)	\$ -
Prepayments for leases - non-current	54,958	(54,958)	-
Property, plant and equipment	11,564	(11,564)	-
Right-of-use assets - non-current	<u>-</u>	<u>208,496</u>	<u>208,496</u>
Total effect on assets	<u>\$ 68,123</u>	<u>\$ 140,373</u>	<u>\$ 208,496</u>
Finance lease payables - current	\$ 1,749	\$ (1,749)	\$ -
Finance lease payables - non-current	8,347	(8,347)	-
Lease liabilities - current	-	69,921	69,921
Lease liabilities - non-current	<u>-</u>	<u>80,548</u>	<u>80,548</u>
Total effect on liabilities	<u>\$ 10,096</u>	<u>\$ 140,373</u>	<u>\$ 150,469</u>

- b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)
Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.	
Note 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.	
Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.	

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

- c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

- b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

- c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within 12 months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 11 and Tables 8 and 9 for the detailed information on subsidiaries (including percentages of ownership and main businesses).

e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of its foreign operations (including subsidiaries and associates in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (a disposal of the Company's entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising from the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

f. Inventories

Inventories consist of raw materials, supplies, work-in-process, finished goods and merchandise and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

g. Investments in associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

The Group uses the equity method to account for its investments in associates.

Under the equity method, investments in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of the equity of associates attributable to the Group.

When the Company subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further loss, if any. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment loss. Before January 1, 2019, property, plant and equipment also included assets held under finance leases.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term of an item of property, plant and equipment is shorter than its useful life, it is depreciated over its lease term. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Goodwill

Goodwill arising from the acquisition of a business is measured at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as "cash-generating units") that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro rata to the other assets of the unit based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. Any impairment loss recognized for goodwill is not reversed in subsequent periods.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets (computer software) with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets (including trademarks, customer relationship and technological expertise) acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be defined, corporate assets are allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units using a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

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

a) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL and financial assets at amortized cost.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL is debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends or interest earned on such financial assets are recognized in other income; any remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 31.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the events have indicated significant financial difficulty of the issuer or counterparty, breach of contract, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

The Group recognizes a loss allowance for expected credit losses (“ECLs”) on financial assets at amortized cost (including accounts receivables).

The Group always recognizes lifetime ECLs for trade receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

ECLs reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Group determines that situations such as a default or delinquency in interest or principal payments, or internal or external information show that the debtor is unlikely to pay its creditors, indicates that a financial asset is in default (without taking into account any collateral held by the Group).

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

2) Financial liabilities

a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

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

3) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date on which the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations to assure that products comply with agreed-upon specifications are recognized on the date of sale of the relevant products at the best estimate by the management of the Company of the expenditures required to settle the Group's obligations.

n. Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Revenue from the sale of goods

Revenue from the sale of goods comes from sales of hardware, software and peripheral devices of industrial computers. Sales of the above goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped, because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. The transaction price received prior to delivery of the goods is recognized as a contract liability until the goods have been transferred to the customer.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from the rendering of services

Revenue from the rendering of services comes from the provision of self-developed software authorization, software and hardware installation services and extended warranty services.

Revenue from self-developed software authorization is received as a non-refundable royalty at the time of signing.

As the Group provides hardware and software installation services and extended warranty services, customers simultaneously receive and consume the benefits provided by the Group's performance. Consequently, the related revenue is recognized when services are rendered.

o. Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

For a contract that contains a lease component and non-lease components, the Group allocates the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and adjusted for any remeasurement of the lease liabilities.

Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Group by the end of the lease terms or if the costs of right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

p. Borrowing costs

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

r. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities are recognized as employee benefits expense in the period in which they occur, or when the plan amendment or curtailment occurs. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities represent the actual deficit in the Group's defined benefit plans.

3) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefits and when the Group recognizes any related restructuring costs.

s. Share-based payment arrangements

The fair value at the grant date of the employee share options/restricted shares for employees is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options/other equity - unearned employee benefits.

When restricted shares for employees are issued, other equity - unearned employee benefits is recognized on the grant date, with a corresponding increase in capital surplus - restricted shares for employees. Dividends paid to employees on the restricted shares that do not need to be returned if employees resign in the vesting period, are recognized as expenses when the dividends are declared with a corresponding adjustment in retained earnings/capital surplus - restricted shares for employees.

At the end of each reporting period, the Group revises its estimate of the number of employee share options/restricted shares for employees expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options/capital surplus - restricted shares for employees.

t. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused tax credits for research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3) Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimations and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The calculation of the value in use requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 361	\$ 360
Checking accounts and demand deposits	1,800,847	1,418,772
Cash equivalents (investments with original maturities of less than 3 months)		
Time deposits	<u>71,952</u>	<u>-</u>
	<u>\$ 1,873,160</u>	<u>\$ 1,419,132</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
Financial assets mandatorily classified as at FVTPL		
Derivative financial assets (not under hedge accounting)		
Foreign exchange forward contracts	\$ -	\$ 236
Non-derivative financial assets		
Mutual funds	<u>100,313</u>	<u>-</u>
	<u>\$ 100,313</u>	<u>\$ 236</u>

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
<u>December 31, 2018</u>			
Sell	USD/NTD	January 2019	USD3,000/NTD92,208

The Group entered into foreign exchange forward contracts to manage exposures to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, those contracts did not meet the criteria of hedge effectiveness and, therefore, were not accounted for using hedge accounting.

Refer to Table 3 for information relating to the unlisted equity investments held by the Group were classified as financial assets at FVTPL as of December 31, 2019.

8. FINANCIAL ASSETS AT AMORTIZED COST

	December 31	
	2019	2018
<u>Current</u>		
Time deposits with original maturities of more than 3 months	\$ 48,810	\$ 1,536

The ranges of interest rates for time deposits with original maturities of more than 3 months were approximately 0.15% -1.05% and 0.60% per annum as of December 31, 2019 and 2018, respectively.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2019	2018
<u>Notes receivable</u>		
At amortized cost		
Gross carrying amount	\$ 18,320	\$ 101,146
Less: Allowance for impairment loss	-	-
	<u>\$ 18,320</u>	<u>\$ 101,146</u>
<u>Trade receivables</u>		
At amortized cost		
Gross carrying amount	\$ 1,984,943	\$ 1,918,248
Less: Allowance for impairment loss	(6,688)	(6,356)
	<u>\$ 1,978,255</u>	<u>\$ 1,911,892</u>
<u>Other receivables</u>		
Tax refund receivables	\$ 38,020	\$ 41,102
Others	23,433	3,480
	<u>\$ 61,453</u>	<u>\$ 44,582</u>

The average credit period of sales of goods was 30 to 90 days. In order to minimize credit risk, the management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the trade receivables are over certain days past due, whichever occurs earlier. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2019

	Not Past Due	Less than 30 Days	31 to 90 Days	Over 91 Days	Total
Gross carrying amount	\$ 1,637,494	\$ 187,278	\$ 111,336	\$ 48,835	\$ 1,984,943
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>(3,051)</u>	<u>(3,637)</u>	<u>(6,688)</u>
Amortized cost	<u>\$ 1,637,494</u>	<u>\$ 187,278</u>	<u>\$ 108,285</u>	<u>\$ 45,198</u>	<u>\$ 1,978,255</u>

December 31, 2018

	Not Past Due	Less than 30 Days	31 to 90 Days	Over 91 Days	Total
Gross carrying amount	\$ 1,592,294	\$ 219,549	\$ 81,219	\$ 25,186	\$ 1,918,248
Loss allowance (Lifetime ECL)	<u>-</u>	<u>-</u>	<u>(1,654)</u>	<u>(4,702)</u>	<u>(6,356)</u>
Amortized cost	<u>\$ 1,592,294</u>	<u>\$ 219,549</u>	<u>\$ 79,565</u>	<u>\$ 20,484</u>	<u>\$ 1,911,892</u>

The movements of the loss allowance of trade receivables were as follows:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 6,356	\$ 6,295
Add: Net remeasurement of loss allowance	3,450	3,720
Less: Amounts written off	(2,923)	(3,663)
Foreign exchange gains and losses	<u>(195)</u>	<u>4</u>
Balance at December 31	<u>\$ 6,688</u>	<u>\$ 6,356</u>

10. INVENTORIES

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Raw materials	\$ 886,352	\$ 1,321,072
Supplies	8,332	9,443
Work in progress	322,478	379,088
Finished goods	655,249	785,134
Merchandise	<u>127,575</u>	<u>101,684</u>
	<u>\$ 1,999,986</u>	<u>\$ 2,596,421</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2019 and 2018 included reversals of inventory write-downs of \$24,582 thousand and inventory write-downs of \$105,177 thousand, and unallocated manufacturing expenses of \$142,424 thousand and \$94,928 thousand, respectively.

The reversals of inventory write-downs for the year ended December 31, 2019 resulted from increased selling prices in certain markets, and sale of obsolete materials (including some inventory projects).

11. SUBSIDIARIES

a. Subsidiaries included in consolidated financial statements

Investor	Investee	Main Business	% of Ownership December 31		Remark
			2019	2018	
The Company	Adlink Technology Singapore Pte Ltd.	Selling of industrial computers	100.0	100.0	-
The Company	Adlink Technology Japan Corporation	Selling of industrial computers	85.1	85.1	-
The Company	Adlink Technology Korea Ltd.	Selling of industrial computers	100.0	-	Note 2
The Company	Adlink International Co., Ltd.	Investment activities	100.0	100.0	-
The Company	PrismTech Group Limited	Investment activities	100.0	100.0	-
Adlink International Co., Ltd.	Ampro Adlink Technology Inc.	Manufacturing and selling of industrial computers	100.0	100.0	-
Adlink International Co., Ltd.	Adlink Technology (Europe) GmbH	Investment activities	100.0	100.0	-
Adlink International Co., Ltd.	Adlink Technology (HK) Co., Ltd.	Investment activities	100.0	100.0	-
Adlink Technology (Europe) GmbH	Adlink Technology GmbH	Manufacturing and selling of industrial computers	100.0	100.0	-
Ampro Adlink Technology Inc.	Adlink Technology Canada Inc.	Software development	100.0	100.0	-
Ampro Adlink Technology Inc.	Adlink Technology Corporation	Software authorization and service	100.0	100.0	-
Adlink Technology (HK) Co., Ltd.	Adlink Technology (Shenzhen) Co., Ltd.	Manufacturing and selling of industrial computers	100.0	100.0	Note 1
Adlink Technology (HK) Co., Ltd.	Adlink Technology (China) Co., Ltd.	Manufacturing and selling of industrial computers	100.0	100.0	-
Adlink Technology (China) Co., Ltd.	Dong Guan Ling Yao	Manufacturing and selling of electronic parts	100.0	100.0	-
PrismTech Group Limited	PrismTech Holdings Limited	Investment activities	100.0	100.0	Note 1
PrismTech Group Limited	Adlink Technology Limited	Software development, authorization and service	100.0	-	Note 3
PrismTech Holdings Limited	Adlink Technology Limited	Software development, authorization and service	-	100.0	Note 3
Adlink Technology Limited	Adlink Technology SARL	Software development, authorization and service	100.0	100.0	-
Adlink Technology Limited	Adlink Technology OpenSplice B.V.	Software development	100.0	100.0	-

Note 1: The liquidation of Adlink Technology (Shenzhen) Co., Ltd and PrismTech Holdings Limited is in progress.

Note 2: In order to expand the Asia market, the Group incorporated Adlink Technology Korea Ltd. in January 2019.

Note 3: For efficient management and use of the Group's resources, the Group restructured the organization and transferred 100% ownership of Adlink Technology Limited, the subsidiary of PrismTech Holdings Limited, to PrismTech Group Limited in September 2019.

b. Subsidiaries excluded from the consolidated financial statements: None.

c. Subsidiaries that have material non-controlling interests: None.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates

	December 31	
	2019	2018
<u>Unlisted shares</u>		
JY Technology (Shanghai)	\$ 47,210	\$ 40,820
JY Technology (Korea)	<u>(2,268)</u>	<u>-</u>
	<u>\$ 44,942</u>	<u>\$ 40,820</u>

Associates that Are Not Individually Material

Name of Company	Nature of Activities	Principal Place of Business	Proportion of Ownership and Voting Rights	
			December 31	
			2019	2018
JY Technology (Shanghai)	Selling of industrial automatic control cards, industrial motherboards, industrial computers and peripheral devices	Shanghai, China	38.38%	45.45%
JY Technology (Korea)	Selling of industrial automatic control cards, industrial motherboards, industrial computers and peripheral devices	Seongnam, Korea	28.156%	-

Aggregate Information of Associates That Are Not Individually Material

	For the Year Ended December 31	
	2019	2018
The Group's share of loss from continuing operations		
JY Technology (Shanghai)	\$ 10,708	\$ 11,631
JY Technology (Korea)	<u>11,421</u>	<u>-</u>
	<u>\$ 22,129</u>	<u>\$ 11,631</u>

Except for JY Technology (Korea), investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of JY Technology (Korea) which have not been audited.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Machinery and Equipment	Transportation Equipment	Leasehold Improvements	Leasehold Assets	Other Equipment	Property under Construction	Total
Cost									
Balance at January 1, 2018	\$ 131,362	\$ 848,510	\$ 580,331	\$ 2,510	\$ 135,567	\$ -	\$ 328,861	\$ -	\$ 2,027,141
Additions	-	3,923	16,943	-	5,322	11,783	44,426	-	82,397
Disposals	-	-	(15,074)	(639)	(151)	-	(8,703)	-	(24,567)
Reclassification	-	1,606	(1,284)	-	-	-	-	-	322
Transfer from prepayments for equipment	-	-	49,424	-	-	-	1,090	-	50,514
Effect of foreign currency exchange differences	-	(12,760)	(3,421)	42	727	(219)	(2,070)	-	(17,701)
Balance at December 31, 2018	<u>\$ 131,362</u>	<u>\$ 841,279</u>	<u>\$ 626,919</u>	<u>\$ 1,913</u>	<u>\$ 141,465</u>	<u>\$ 11,564</u>	<u>\$ 363,604</u>	<u>\$ -</u>	<u>\$ 2,118,106</u>
Accumulated depreciation									
Balance at January 1, 2018	\$ -	\$ (360,899)	\$ (416,444)	\$ (1,753)	\$ (109,996)	\$ -	\$ (248,777)	\$ -	\$ (1,137,869)
Depreciation expense	-	(50,949)	(60,895)	(265)	(12,208)	-	(52,966)	-	(177,283)
Disposals	-	-	14,989	639	151	-	8,654	-	24,433
Reclassification	-	(1,071)	749	-	39	-	(39)	-	(322)
Effect of foreign currency exchange differences	-	6,334	2,681	(31)	(557)	-	1,680	-	10,107
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ (406,585)</u>	<u>\$ (458,920)</u>	<u>\$ (1,410)</u>	<u>\$ (122,571)</u>	<u>\$ -</u>	<u>\$ (291,448)</u>	<u>\$ -</u>	<u>\$ (1,280,934)</u>
Carrying amounts at December 31, 2018	<u>\$ 131,362</u>	<u>\$ 434,694</u>	<u>\$ 167,999</u>	<u>\$ 503</u>	<u>\$ 18,894</u>	<u>\$ 11,564</u>	<u>\$ 72,156</u>	<u>\$ -</u>	<u>\$ 837,172</u>
Cost									
Balance at January 1, 2019	\$ 131,362	\$ 841,279	\$ 626,919	\$ 1,913	\$ 141,465	\$ 11,564	\$ 363,604	\$ -	\$ 2,118,106
Adjustments on initial application of IFRS 16	-	-	-	-	-	(11,564)	-	-	(11,564)
Balance at January 1, 2019 (restated)	131,362	841,279	626,919	1,913	141,465	-	363,604	-	2,106,542
Additions	-	11,994	5,442	-	976	-	18,806	400,618	437,836
Disposals	-	-	(5,306)	-	(1,416)	-	(10,253)	-	(16,975)
Reclassification	-	-	-	-	-	-	(343)	-	(343)
Transfer from prepayments for equipment	-	-	-	-	-	-	208	-	208
Effect of foreign currency exchange differences	-	(29,073)	(9,966)	(33)	(735)	-	(6,278)	(12,078)	(58,163)
Balance at December 31, 2019	<u>\$ 131,362</u>	<u>\$ 824,200</u>	<u>\$ 617,089</u>	<u>\$ 1,880</u>	<u>\$ 140,290</u>	<u>\$ -</u>	<u>\$ 365,744</u>	<u>\$ 388,540</u>	<u>\$ 2,469,105</u>
Accumulated depreciation									
Balance at January 1, 2019	\$ -	\$ (406,585)	\$ (458,920)	\$ (1,410)	\$ (122,571)	\$ -	\$ (291,448)	\$ -	\$ (1,280,934)
Depreciation expense	-	(50,921)	(59,388)	(214)	(8,874)	-	(41,900)	-	(161,297)
Disposals	-	-	5,228	-	1,415	-	10,189	-	16,832
Reclassification	-	-	-	-	(41)	-	384	-	343
Effect of foreign currency exchange differences	-	16,077	8,423	30	740	-	5,512	-	30,782
Balance at December 31, 2019	<u>\$ -</u>	<u>\$ (441,429)</u>	<u>\$ (504,657)</u>	<u>\$ (1,594)</u>	<u>\$ (129,331)</u>	<u>\$ -</u>	<u>\$ (317,263)</u>	<u>\$ -</u>	<u>\$ (1,394,274)</u>
Carrying amounts at December 31, 2019	<u>\$ 131,362</u>	<u>\$ 382,771</u>	<u>\$ 112,432</u>	<u>\$ 286</u>	<u>\$ 10,959</u>	<u>\$ -</u>	<u>\$ 48,481</u>	<u>\$ 388,540</u>	<u>\$ 1,074,831</u>

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Building	
Main buildings	20-50 years
Mechanical and electrical accessories	2-20 years
Decoration	3-10 years
Machinery equipment	2-10 years
Transportation equipment	5-6 years
Leasehold improvements	3-10 years
Other equipment	1-15 years

Property, plant and equipment pledged by the Group as collateral for bank borrowing facilities are set out in Note 33.

14. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land	\$ 52,774
Buildings	116,518
Machinery	8,725
Transportation equipment	<u>12,108</u>
	<u>\$ 190,125</u>
	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 75,615</u>
Depreciation charge for right-of-use assets	
Land	\$ 1,603
Buildings	75,628
Machinery	2,482
Transportation equipment	<u>7,941</u>
	<u>\$ 87,654</u>

b. Lease liabilities - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Current	<u>\$ 75,341</u>
Non-current	<u>\$ 62,109</u>

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Land	-
Buildings	1.01%-14.25%
Machinery	11.09%
Transportation equipment	1.01%-4.88%

c. Material lease-in activities and terms

The Group leases machinery for the use of product manufacturing and R&D with lease terms of 5 years. The Group has options to purchase the equipment for a nominal amount at the end of the lease terms.

The Group also leases land and buildings for the use of plants and offices with lease terms of 2 to 50 years. The Group does not have bargain purchase options to acquire the leasehold land and buildings at the end of the lease terms.

d. Other lease information

2019

**For the Year
Ended
December 31,
2019**

Expenses relating to short-term leases	\$ 55,880
Expenses relating to low-value asset leases	\$ 147
Total cash outflow for leases	\$ (146,203)

The Group leases building and office equipment which qualify as short-term leases and low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

For the year ended December 31, 2019, expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. The amount of lease commitments for short-term leases for which the recognition exemption is applied was \$5,638 thousand as of December 31, 2019.

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	\$ 109,781
Later than 1 year and not later than 5 years	80,705
Later than 5 years	<u>12,952</u>
	<u>\$ 203,438</u>

15. INTANGIBLE ASSETS

	Computer Software	Goodwill	Trademarks	Customer Relationship	Technological Expertise	Total
<u>Cost</u>						
Balance at January 1, 2018	\$ 139,004	\$ 632,585	\$ 162,751	\$ 335,192	\$ 129,431	\$ 1,398,963
Additions	60,455	-	-	-	-	60,455
Disposals	(82,844)	-	-	-	-	(82,844)
Effect of foreign currency exchange differences	<u>423</u>	<u>(7,142)</u>	<u>2,648</u>	<u>2,644</u>	<u>(3,134)</u>	<u>(4,561)</u>
Balance at December 31, 2018	<u>\$ 117,038</u>	<u>\$ 625,443</u>	<u>\$ 165,399</u>	<u>\$ 337,836</u>	<u>\$ 126,297</u>	<u>\$ 1,372,013</u>

(Continued)

	Computer Software	Goodwill	Trademarks	Customer Relationship	Technological Expertise	Total
<u>Accumulated amortization and impairment</u>						
Balance at January 1, 2018	\$ (95,539)	\$ (49,412)	\$ (50,469)	\$ (243,201)	\$ (48,748)	\$ (487,369)
Amortization expense	(63,224)	-	-	(18,488)	(18,541)	(100,253)
Disposals	82,844	-	-	-	-	82,844
Impairment losses recognized	-	(11,914)	(9,494)	-	-	(21,408)
Effect of foreign currency exchange differences	(267)	1,045	(1)	(4,056)	1,516	(1,763)
Balance at December 31, 2018	<u>\$ (76,186)</u>	<u>\$ (60,281)</u>	<u>\$ (59,964)</u>	<u>\$ (265,745)</u>	<u>\$ (65,773)</u>	<u>\$ (527,949)</u>
Carrying amounts at December 31, 2018	<u>\$ 40,852</u>	<u>\$ 565,162</u>	<u>\$ 105,435</u>	<u>\$ 72,091</u>	<u>\$ 60,524</u>	<u>\$ 844,064</u>
<u>Cost</u>						
Balance at January 1, 2019	\$ 117,038	\$ 625,443	\$ 165,399	\$ 337,836	\$ 126,297	\$ 1,372,013
Additions	62,998	-	-	-	-	62,998
Disposals	(56,643)	-	-	-	-	(56,643)
Effect of foreign currency exchange differences	(954)	(1,974)	(5,266)	(8,204)	(808)	(17,206)
Balance at December 31, 2019	<u>\$ 122,439</u>	<u>\$ 623,469</u>	<u>\$ 160,133</u>	<u>\$ 329,632</u>	<u>\$ 125,489</u>	<u>\$ 1,361,162</u>
<u>Accumulated amortization and impairment</u>						
Balance at January 1, 2019	\$ (76,186)	\$ (60,281)	\$ (59,964)	\$ (265,745)	\$ (65,773)	\$ (527,949)
Amortization expense	(59,582)	-	-	(18,043)	(18,130)	(95,755)
Disposals	56,643	-	-	-	-	56,643
Impairment losses recognized	-	(110,305)	(15,144)	(28,822)	(5,725)	(159,996)
Effect of foreign currency exchange differences	818	1,449	2,853	7,977	1,250	14,347
Balance at December 31, 2019	<u>\$ (78,307)</u>	<u>\$ (169,137)</u>	<u>\$ (72,255)</u>	<u>\$ (304,633)</u>	<u>\$ (88,378)</u>	<u>\$ (712,710)</u>
Carrying amounts at December 31, 2019	<u>\$ 44,132</u>	<u>\$ 454,332</u>	<u>\$ 87,878</u>	<u>\$ 24,999</u>	<u>\$ 37,111</u>	<u>\$ 648,452</u>
						(Concluded)

The above items of intangible assets are amortized on a straight-line basis over their following estimated useful lives as follows:

Computer software	1-10 years
Customer relationship	7 years
Technological expertise	7 years

Goodwill and trademarks are considered to have indefinite useful lives, and will be tested for impairment annually and whenever there is an indication that they may be impaired.

The Group recognized impairment loss on trademarks in the amounts of \$15,144 thousand and \$9,494 thousand for the years ended December 31, 2019 and 2018, respectively.

PrismTech Group Limited and Adlink Technology GmbH, the Group's subsidiaries in the UK and Germany, respectively, failed to achieve their operating performance targets. Nevertheless, the management has a plan to promote their products and expects to take advantage of the industrial computer products and continue developing the Industrial Internet of Things. The management assessed that the expected recoverable amount of goodwill was lower than the related carrying amount; thus, impairment losses of \$144,852 thousand and \$11,914 thousand were recognized for the years ended December 31, 2019 and 2018, respectively.

The main recoverable amount of PrismTech Group Limited, the Group's subsidiary in the UK, was determined based on a value in use calculation that used the cash flow projections in the financial budgets approved by management covering a 5-year period; the discount rate was 12%. Other key assumptions included budgeted revenue and budgeted gross margin. Such assumptions were based on the past performance of the cash-generating unit and management's expectations of market development.

16. PREPAYMENTS FOR LEASES

	December 31, 2018
Current assets (included in prepayments)	\$ 1,601
Non-current assets	<u>54,958</u>
	<u>\$ 56,559</u>

Prepayments for leases include land use rights for land located in Zhangjiang, Shanghai, mainland China. Refer to Note 33 for the land use rights pledged by the Group to secure general banking facilities granted to the Group.

17. OTHER ASSETS

	December 31	
	2019	2018
<u>Current</u>		
Prepayments		
Prepaid expenses (Note 16)	\$ 50,737	\$ 56,966
Prepaid input tax	14,971	46,944
Payments for purchase of goods	<u>794</u>	<u>147</u>
	<u>\$ 66,502</u>	<u>\$ 104,057</u>
<u>Non-current</u>		
Other non-current assets		
Prepayments for equipment	\$ 2,909	\$ 1,174
Prepayments for investments	<u>-</u>	<u>18,423</u>
	<u>\$ 2,909</u>	<u>\$ 19,597</u>

18. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
<u>Unsecured borrowings</u>		
Line of credit borrowings	\$ 637,813	\$ 413,342
<u>Secured borrowings (Note 33)</u>		
Bank loans	<u>85,949</u>	<u>204,512</u>
	<u>\$ 723,762</u>	<u>\$ 617,854</u>

- 1) The range of effective interest rates on short-term borrowings was 1.08%-4.875% and 0.83%-4.79% per annum as of December 31, 2019 and 2018, respectively.
- 2) The expected repayment dates of unsecured borrowings were January to July 2020 and January to August 2019 as of December 31, 2019 and 2018, respectively.
- 3) The expected repayment period of secured borrowings were January to September 2020 and March to May 2019 as of December 31, 2019 and 2018, respectively.
- 4) Refer to Note 31 for related information about utilized and unutilized bank loan facilities.

b. Long-term borrowings

	December 31	
	2019	2018
<u>Unsecured borrowings</u>		
Line of credit borrowings	<u>\$ 45,000</u>	<u>\$ 200,000</u>

- 1) The range of effective interest rates on long-term borrowings was 0.75% and 1.08%-1.12% per annum as of December 31, 2019 and 2018, respectively.
- 2) The expected repayment dates of the line of credit borrowings were October to November 2024 as of December 31, 2019.
- 3) The expected maturity date of the line of credit borrowings of \$100,000 thousand is in December 2020 as of December 31, 2018, but will be used on a revolving basis within the unutilized short-term bank loan facilities before March 2021. The above borrowings had been repaid in advance as of December 31, 2019.
- 4) Refer to Note 31 for related information about utilized and unutilized bank loan facilities.

19. NOTES PAYABLE AND TRADE PAYABLES

Notes payable and trade payables are generated from operating activities. The average credit period for purchase of certain goods was 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

20. OTHER PAYABLES

	December 31	
	2019	2018
Payable for salaries and bonuses	\$ 421,436	\$ 374,519
Compensation to employees	96,383	51,000
Payable for annual leave	39,236	38,556
Payable for outsourcing costs	32,821	33,855
Payable for output tax	21,962	25,602
Payable for research and design expenses	18,241	15,560
Payable for indirect materials	7,885	13,469
Remuneration of directors and supervisors	6,000	3,250
Payable for purchases of equipment	3,578	2,228
Others	<u>203,531</u>	<u>230,518</u>
	<u>\$ 851,073</u>	<u>\$ 788,557</u>

21. FINANCE LEASE PAYABLES - 2018

	December 31, 2018
<u>Minimum lease payments</u>	
Not later than 1 year	\$ 2,781
Later than 1 year and not later than 5 years	<u>10,196</u>
	12,977
Less: Future finance charges	<u>(2,881)</u>
Present value of minimum lease payments	<u>\$ 10,096</u>
<u>Present value of minimum lease payments</u>	
Not later than 1 year	\$ 1,749
Later than 1 year and not later than 5 years	<u>8,347</u>
	<u>\$ 10,096</u>

The Group leased certain of its manufacturing equipment under finance leases. The average lease term for the year ended December 31, 2018 is 5 years. The Group's finance leases payable were secured by the title to the leased assets.

Interest rates underlying all obligations under finance leases were fixed at their respective contract dates at 11.09% per annum on December 31, 2018.

22. PROVISIONS

	December 31	
	2019	2018
<u>Warranties</u>		
Current	\$ 56,711	\$ 59,756
Non-current	<u>38,827</u>	<u>37,434</u>
	<u>\$ 95,538</u>	<u>\$ 97,190</u>
		Warranties
Balance at January 1, 2019		\$ 97,190
Additional provisions recognized		39,217
Usage		(529)
Reversed un-usage balances		(39,128)
Effect of foreign currency exchange differences		<u>(1,212)</u>
Balance at December 31, 2019		<u>\$ 95,538</u>

The provision for warranty claims represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The estimate had been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company of the Group adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Overseas subsidiaries have to contribute amounts at certain percentage of salaries to the local governments. Employees of these subsidiaries will receive retirement pension from the local governments after retirement.

b. Defined benefit plans

The defined benefit plan adopted by the Company of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 109,258	\$ 101,967
Fair value of plan assets	<u>(56,137)</u>	<u>(51,713)</u>
Net defined benefit liabilities	<u>\$ 53,121</u>	<u>\$ 50,254</u>

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2018	<u>\$ 98,494</u>	<u>\$ (47,483)</u>	<u>\$ 51,011</u>
Current service cost	1,047	-	1,047
Net interest expense (income)	<u>1,226</u>	<u>(601)</u>	<u>625</u>
Recognized in profit or loss	<u>2,273</u>	<u>(601)</u>	<u>1,672</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,292)	(1,292)
Actuarial gain - changes in demographic assumptions	(57)	-	(57)
Actuarial loss - changes in financial assumptions	3,260	-	3,260
Actuarial gain - experience adjustments	<u>(2,003)</u>	<u>-</u>	<u>(2,003)</u>
Recognized in other comprehensive income (loss)	<u>1,200</u>	<u>(1,292)</u>	<u>(92)</u>
Contributions from the employer	<u>-</u>	<u>(2,337)</u>	<u>(2,337)</u>
Balance at December 31, 2018	<u>101,967</u>	<u>(51,713)</u>	<u>50,254</u>
Current service cost	1,116	-	1,116
Net interest expense (income)	<u>1,015</u>	<u>(522)</u>	<u>493</u>
Recognized in profit or loss	<u>2,131</u>	<u>(522)</u>	<u>1,609</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(1,787)	(1,787)
Actuarial loss - changes in demographic assumptions	1,410	-	1,410
Actuarial loss - changes in financial assumptions	3,280	-	3,280
Actuarial loss - experience adjustments	<u>470</u>	<u>-</u>	<u>470</u>
Recognized in other comprehensive income (loss)	<u>5,160</u>	<u>(1,787)</u>	<u>3,373</u>
Contributions from the employer	<u>-</u>	<u>(2,115)</u>	<u>(2,115)</u>
Balance at December 31, 2019	<u>\$ 109,258</u>	<u>\$ (56,137)</u>	<u>\$ 53,121</u>

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plans' debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2019	2018
Discount rate(s)	0.75%	1.00%
Expected rate(s) of salary increase	4.00%	4.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2019	2018
Discount rate(s)		
0.25% increase	\$ (3,447)	\$ (3,258)
0.25% decrease	\$ 3,493	\$ 3,402
Expected rate(s) of salary increase		
0.25% increase	\$ 3,373	\$ 3,294
0.25% decrease	\$ (3,252)	\$ (3,173)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2019	2018
Expected contributions to the plan for the next year	\$ 1,975	\$ 2,013
Average duration of the defined benefit obligation	12 years	13 years

24. EQUITY

a. Ordinary shares

	December 31	
	2019	2018
Number of shares authorized (in thousands)	280,000	250,000
Shares authorized	<u>\$ 2,800,000</u>	<u>\$ 2,500,000</u>
Number of shares issued and fully paid (in thousands)	217,497	217,523
Shares issued	<u>\$ 2,174,973</u>	<u>\$ 2,175,232</u>

Fully-paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

A total of 5,000 thousand shares of the Company's authorized shares were reserved for the issuance of employee share options.

For the years ended December 31, 2019 and 2018, the Company retired 26 thousand employee restricted shares, and issued 40 thousand shares under employee share options.

The Company issued 12,608 thousand shares, at an issue price of \$34.5 per share, through a private placement for cash of \$435,000 thousand in January 2013, and distributed share dividends of 883 thousand shares and 1,217 thousand shares in August 2014 and August 2015, respectively, to the shareholders. As of December 31, 2019, the number of ordinary shares issued through private placements was 14,708 thousand shares.

On June 13, 2018, the Company's shareholders resolved to issue 24,000 thousand ordinary shares and/or overseas or domestic convertible bonds (in the case of private placement of overseas or domestic convertible bonds, the number of ordinary shares to be converted shall not exceed 24,000 shares), through a private placement for a consideration of NT\$10 per share, which will be in order to introduce strategic investors into the Company, improve related technologies and expand the market. In consideration of the capital market, the above plan was suspended and its suspension was approved by the Company's board of directors on April 25, 2019.

b. Capital surplus

	December 31	
	2019	2018
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (1)		
Issuance of ordinary shares	\$ 1,132,374	\$ 1,175,879
Conversion of bonds	207,034	207,034
Treasury share transactions	17,579	17,579
<u>May be used to offset a deficit only</u>		
Arising from employee share options exercised	43,453	43,453
Arising from employee share options expired	12,073	12,073
Arising from employee restricted shares expired	97,689	-
Changes in percentage of ownership interests in subsidiaries (2)	5,514	-

(Continued)

	December 31	
	2019	2018
<u>May not be used for any purpose</u>		
Employee restricted shares	\$ -	\$ 97,430
	<u>\$ 1,515,716</u>	<u>\$ 1,553,448</u>
		(Concluded)

A reconciliation of the carrying amounts of capital surplus was as follows:

	Premium of Ordinary Shares	Premium of Conversion of Bonds	Treasury Share Transactions	Share Options Exercised	Share Options Expired	Employee Share Options	Restricted Share Expired	Changes in Percentage of Ownership Interests in Subsidiaries	Employee Restricted Shares	Total
Balance at January 1, 2018	\$ 1,197,631	\$ 207,034	\$ 17,579	\$ 43,453	\$ 11,328	\$ 745	\$ -	\$ -	\$ 97,271	\$ 1,575,041
Issue of cash from capital surplus	(21,752)	-	-	-	-	-	-	-	-	(21,752)
Compensation costs of share-based payments recognized by the Company	-	-	-	-	-	-	-	-	159	159
Expire of ordinary shares under employee share options	-	-	-	-	745	(745)	-	-	-	-
Balance at December 31, 2018	1,175,879	207,034	17,579	43,453	12,073	-	-	-	97,430	1,553,448
Retirement of restricted shares for employees	-	-	-	-	-	-	-	-	259	259
Issue of cash from capital surplus	(43,505)	-	-	-	-	-	-	-	-	(43,505)
Changes in capital surplus from investments in associates accounted for using the equity method	-	-	-	-	-	-	-	5,514	-	5,514
Expire of ordinary shares under employee share options	-	-	-	-	-	-	97,689	-	(97,689)	-
Balance at December 31, 2019	<u>\$ 1,132,374</u>	<u>\$ 207,034</u>	<u>\$ 17,579</u>	<u>\$ 43,453</u>	<u>\$ 12,073</u>	<u>\$ -</u>	<u>\$ 97,689</u>	<u>\$ 5,514</u>	<u>\$ -</u>	<u>\$ 1,515,716</u>

- 1) Such capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).
- 2) Such capital surplus arises from changes in capital surplus of subsidiaries accounted for using the equity method.

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Company made post-tax profit in a fiscal year, the profit shall be first utilized for offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit unless the total legal reserve accumulated has already reached the amount of the Company's authorized capital, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors after amendment, refer to "Employees' compensation and remuneration of directors and supervisors" in Note 26-f.

The Company's Articles of Incorporation provide that the Company adopts residual dividend policy. After setting aside amounts based on the Company's capital budget plan, the residual profits shall be distributed as cash dividends. The Company's Articles of Incorporation also prescribe that less than 10% of total dividends shall be paid in cash.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs” should be appropriated to or reversed from a special reserve by the Company.

The appropriations of earnings for 2018 and 2017 approved in the shareholders’ meetings on June 19, 2019 and June 13, 2018, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2018	2017	2018	2017
Legal reserve	\$ 24,444	\$ 38,886		
Special reserve	(19,114)	79,617		
Cash dividends	239,275	304,532	\$1.1	\$1.4

The Company’s shareholders also resolved to issue cash dividends from the capital surplus of \$43,505 thousand at \$0.2 per share and \$21,752 thousand at \$0.1 per share in the shareholders’ meeting on June 19, 2019 and June 13, 2018, respectively.

The appropriations of earnings for 2019 were proposed by the Company’s board of directors on March 19, 2020. The appropriation and dividends per share were as follows:

	Appropriation of Earnings
Legal reserve	\$ 44,317
Special reserve	45,611

The Company’s board of directors also proposed to issue cash dividends from the capital surplus of \$347,995 thousand at \$1.6 per share.

The appropriation of earnings for 2019 was resolved in the shareholders’ meeting held on June 22, 2020.

d. Special reserve

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 154,353	\$ 74,736
Appropriation in respect of:		
Debit to other equity items	-	79,617
Reversals:		
Reversal of the debits to other equity items	(19,114)	-
Balance at December 31	<u>\$ 135,239</u>	<u>\$ 154,353</u>

e. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ (135,239)	\$ (154,353)
Effect of change in tax rate	-	5,581
Exchange differences on translating foreign operations	(57,013)	16,915
Related income tax	<u>11,402</u>	<u>(3,382)</u>
Balance at December 31	<u>\$ (180,850)</u>	<u>\$ (135,239)</u>

2) Employee unearned benefits

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ (656)	\$ (4,148)
Share-based payment compensation costs recognized	<u>656</u>	<u>3,492</u>
Balance at December 31	<u>\$ -</u>	<u>\$ (656)</u>

f. Non-controlling interests

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 10,484	\$ 9,796
Attributable to non-controlling interests:		
Share of profit for the year	576	167
Exchange differences on translating foreign operations	<u>(98)</u>	<u>521</u>
Balance at December 31	<u>\$ 10,962</u>	<u>\$ 10,484</u>

25. REVENUE

	For the Year Ended December 31	
	2019	2018
Revenue from the sale of goods	\$ 10,327,849	\$ 10,334,889
Software authorization and service revenue	<u>169,221</u>	<u>142,219</u>
	<u>\$ 10,497,070</u>	<u>\$ 10,477,108</u>

a. Contract information

1) Revenue from sale of goods

Revenue from the sale of goods comes from sales of hardware, software and peripheral devices of industrial computers. Sales of the above goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped, because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers and bears the risks of obsolescence. Trade receivables are recognized concurrently. The transaction price received prior to delivery of the goods is recognized as a contract liability until the goods have been transferred to the customer.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

2) Revenue from rendering of services

Revenue from the rendering of services comes from the provision of self-developed software authorization, software and hardware installation services and extended warranty services.

Revenue from self-developed software authorization is received as a non-refundable royalty at the time of signing.

As the Group provides hardware and software installation services and extended warranty services, customers simultaneously receive and consume the benefits provided by the Group's performance. Consequently, the related revenue is recognized when services are rendered.

b. Contract balances

	December 31	
	2019	2018
Trade receivables (Note 9)	<u>\$ 1,978,255</u>	<u>\$ 1,911,892</u>
Contract liabilities		
Sale of goods	<u>\$ 423,121</u>	<u>\$ 148,310</u>

The changes in the balance of contract liabilities primarily result from the timing difference between the Group's performance and the respective customer's payment.

26. NET PROFIT FOR THE YEAR

a. Other income

	For the Year Ended December 31	
	2019	2018
Grant revenue	\$ 45,878	\$ 33,369
Rental income	10,593	10,166
Interest income	7,421	4,888
Income from clearance of overdue debts	5,003	305
Income from insurance compensation	2,847	-
Others	<u>26,062</u>	<u>27,050</u>
	<u>\$ 97,804</u>	<u>\$ 75,778</u>

b. Other gains and losses

	For the Year Ended December 31	
	2019	2018
Impairment losses (Note 15)	\$ (159,996)	\$ (21,408)
Net foreign exchange losses	(28,953)	(13,934)
Gain on disposal of property, plant and equipment	83	617
Gain on lease modifications	32	-
Others	<u>(7,640)</u>	<u>(537)</u>
	<u>\$ (196,474)</u>	<u>\$ (35,262)</u>

c. Finance costs

	For the Year Ended December 31	
	2019	2018
Interest on bank loans	\$ 26,965	\$ 16,343
Interest on lease liabilities	3,206	-
Interest on finance lease payables	<u>-</u>	<u>390</u>
	<u>\$ 30,171</u>	<u>\$ 16,733</u>

d. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property, plant and equipment	\$ 161,297	\$ 177,283
Right-of-use assets	87,654	-
Computer software	59,582	63,224
Technological expertise	18,130	18,541
Customer relationship	<u>18,043</u>	<u>18,488</u>
	<u>\$ 344,706</u>	<u>\$ 277,536</u>
An analysis of depreciation by function		
Cost of goods sold	\$ 83,724	\$ 71,390
Operating expenses	<u>165,227</u>	<u>105,893</u>
	<u>\$ 248,951</u>	<u>\$ 177,283</u>
An analysis of amortization by function		
Cost of goods sold	\$ 1,171	\$ 1,046
Operating expenses	<u>94,584</u>	<u>99,207</u>
	<u>\$ 95,755</u>	<u>\$ 100,253</u>

e. Employee benefits expense

	For the Year Ended December 31	
	2019	2018
Post-employment benefits		
Defined contribution plans	\$ 97,707	\$ 105,044
Defined benefit plans (Note 23)	<u>1,609</u>	<u>1,672</u>
	99,316	106,716
Equity-settled share-based payments	656	3,651
Other employee benefits	<u>2,736,422</u>	<u>2,648,870</u>
	<u>\$ 2,836,394</u>	<u>\$ 2,759,237</u>
An analysis of employee benefits expense by function		
Cost of goods sold	\$ 432,539	\$ 470,372
Operating expenses	<u>2,403,855</u>	<u>2,288,865</u>
	<u>\$ 2,836,394</u>	<u>\$ 2,759,237</u>

f. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at rates from 3% to 20% and no higher than 3%, respectively, of net profit before income tax (the parent company only financial statements), employees' compensation, and remuneration of directors and supervisors. The employee's compensation and remuneration of directors and supervisors for the years ended December 31, 2019 and 2018 which have been approved by the Company's board of directors on March 19, 2020 and March 25, 2019, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	14.72%	15.16%
Remuneration of directors and supervisors	0.92%	0.97%

Amount

	For the Year Ended December 31	
	2019	2018
	Cash	Cash
Employees' compensation	<u>\$ 96,383</u>	<u>\$ 51,000</u>
Remuneration of directors and supervisors	<u>\$ 6,000</u>	<u>\$ 3,250</u>

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

27. INCOME TAXES

- a. Major components of tax expense recognized in profit or loss

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ 188,645	\$ 143,909
Income tax on unappropriated earnings	37	-
Adjustments for prior years	<u>(9,008)</u>	<u>(7,372)</u>
	<u>179,674</u>	<u>136,537</u>
Deferred tax		
In respect of the current year	(7,201)	(67,703)
Effect of tax rate changes	<u>-</u>	<u>(11,414)</u>
	<u>(7,201)</u>	<u>(79,117)</u>
Income tax expense recognized in profit or loss	<u>\$ 172,473</u>	<u>\$ 57,420</u>

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before tax	<u>\$ 616,220</u>	<u>\$ 302,029</u>
Income tax expense calculated at the statutory rate	\$ 123,244	\$ 60,406
Tax-exempt income	(106)	(43)
Income tax on unappropriated earnings	37	-
Nondeductible expenses in determining taxable income	449	597
Unrecognized temporary differences	32,150	26,649
Unrecognized loss carryforwards	(7,289)	(256)
Effect of tax rate changes	-	(11,414)
Effect of different tax rate of group entities operating in other jurisdictions	32,996	(11,147)
Adjustments for prior years' tax	<u>(9,008)</u>	<u>(7,372)</u>
Income tax expense recognized in profit or loss	<u>\$ 172,473</u>	<u>\$ 57,420</u>

The Income Tax Act applicable to the Group entities in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
Effect of change in tax rate		
Translation of foreign operations	\$ -	\$ 5,581
Remeasurement of defined benefit plans	-	822
	-	6,403
In respect of the current year		
Translation of foreign operations	11,402	(3,382)
Remeasurement of defined benefit plans	674	(18)
	<u>12,076</u>	<u>(3,400)</u>
Total income tax recognized in other comprehensive income	<u>\$ 12,076</u>	<u>\$ 3,003</u>

c. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized intercompany gains	\$ 21,812	\$ (2,655)	\$ -	\$ -	\$ 19,157
Defined benefit obligation	10,051	(101)	674	-	10,624
Allowance for write-down of inventories	86,803	(20,752)	-	(1,425)	64,626
Property, plant and equipment	4,687	(182)	-	(178)	4,327
Warranties	12,668	(426)	-	-	12,242
Exchange differences on translating foreign operations	33,825	-	11,402	-	45,227
Unrealized exchange losses	-	65	-	-	65
Foreign investment loss	57,982	15,296	-	-	73,278
Invested company impairment loss	11,959	11,841	-	-	23,800
Others	881	(45)	-	(33)	803
	<u>\$ 240,668</u>	<u>\$ 3,041</u>	<u>\$ 12,076</u>	<u>\$ (1,636)</u>	<u>\$ 254,149</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Unrealized exchange gains	<u>\$ 4,160</u>	<u>\$ (4,160)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

For the year ended December 31, 2018

	Opening Balance	Effect of tax rate changes	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Unrealized intercompany gains	\$ 13,267	\$ 2,341	\$ 6,204	\$ -	\$ -	\$ 21,812
Defined benefit obligation	8,672	1,530	(133)	(18)	-	10,051
Allowance for write-down of inventories	67,193	3,194	17,344	-	(928)	86,803
Property, plant and equipment	4,384	-	386	-	(83)	4,687
Warranties	9,978	1,761	929	-	-	12,668
Exchange differences on translating foreign operations	31,626	5,581	-	(3,382)	-	33,825
Unrealized exchange losses	1,463	258	(1,721)	-	-	-
Foreign investment loss	9,609	1,696	46,677	-	-	57,982
Invested company impairment loss	8,140	1,436	2,383	-	-	11,959
Others	<u>1,081</u>	<u>20</u>	<u>(206)</u>	<u>-</u>	<u>(14)</u>	<u>881</u>
	<u>\$ 155,413</u>	<u>\$ 17,817</u>	<u>\$ 71,863</u>	<u>\$ (3,400)</u>	<u>\$ (1,025)</u>	<u>\$ 240,668</u>
<u>Deferred tax liabilities</u>						
Temporary differences						
Unrealized exchange gains	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,160</u>

d. Income tax assessments

The Company's income tax returns through 2017 have been assessed by the tax authorities.

28. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Profit for the Year

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Earnings used in the computation of basic and diluted earnings per share	<u>\$ 443,171</u>	<u>\$ 244,442</u>

Weighted average number of ordinary shares outstanding (in thousands of shares):

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Weighted average number of ordinary shares used in the computation of basic earnings per share	217,460	217,337
Effect of potentially dilutive ordinary shares:		
Employees' compensation	2,276	1,286
Employee restricted shares	<u>-</u>	<u>64</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>219,736</u>	<u>218,687</u>

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group will assume the entire amount of the compensation or bonuses will be settled in shares, and the resulting potentially dilutive shares are included in the weighted average number of shares outstanding used in the

computation of diluted earnings per share. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

29. SHARE-BASED PAYMENT ARRANGEMENTS

Restricted Share Plan for Employees of the Company

In the shareholders' meeting on June 11, 2015, the shareholders approved a restricted share plan for employees with a total amount of \$15,000 thousand, consisting 1,500 thousand shares, at the issue price of zero per share. Regulations of the employees' restricted share plan were as follows:

- a. If the employees who acquire the restricted shares issued by the Company achieve the Company's goals for financial performance, personal performance and service rules, the restricted shares are exercisable at 15%, 30% and 55% after the first, second and third anniversary year from the grant date, respectively.
- b. The restrictions on the rights of the employees who acquire the restricted shares but have not met the vesting conditions are as follows:
 - 1) The employees cannot sell, pledge, transfer, donate or in any other way dispose of these shares.
 - 2) The employees holding these shares are entitled to receive dividends and participate in any share issuance for cash. Cash and share dividends received are free from vesting time (from the grant date) and will be remitted from the custodian account to employees' individual bank accounts with no consideration after the payment date.
 - 3) Their rights to propose, speak, vote and participate in other events related to shareholders' equity are all entrusted to the trust custodian.
 - 4) The restricted shares should be held in trust after being issued and non-refundable before meeting the vesting conditions.
- c. If an employee fails to meet the vesting conditions due to leaving without pay, retirement, death or disability to work caused by occupational hazards, general death, significant negligence or violation of employment agreements or work rules, transfer to another post or voluntary withdrawal, etc., his/her restricted shares will be handled in accordance with the regulations of employee restricted stock plan. However, if an employee fails to meet the vesting conditions in other general situations, the Company will recall and cancel his/her restricted shares with no consideration.

Information about the restricted share plan for employees was as follows:

	For the Year Ended December 31	
	2019	2018
	Number of Options (In Thousand)	Number of Options (In Thousand)
Balance at January 1	80	179
Options exercised	(54)	(99)
Options retired	<u>(26)</u>	<u>-</u>
Balance at December 31	<u>-</u>	<u>80</u>

The above transaction was approved under Order No. 1040024448 issued by the FSC on June 29, 2015. The issuance base date was determined at November 2, 2015, February 18 and June 28, 2016, and the Company issued 1,220 thousand, 140 thousand and 140 thousand shares, respectively. Compensation costs of employee restricted shares recognized were \$656 thousand and \$3,651 thousand for the years ended December 31, 2019 and 2018, respectively.

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and total assets balance. The Group's overall strategy is expected to remain unchanged for the year ahead.

Key management personnel of the Group review the capital structure on a quarterly basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares, and the amount of new debt issued.

The Group's target current ratio, debt ratio and times interest earned are set to be no less than 100%, no more than 120% and no less than 5 times, respectively.

Current ratio

The current ratio at the end of reporting period was as follows:

	December 31	
	2019	2018
Current assets	<u>\$ 6,173,992</u>	<u>\$ 6,199,027</u>
Current liabilities	<u>\$ 3,543,250</u>	<u>\$ 3,410,591</u>
Current ratio	<u>174.25%</u>	<u>181.76%</u>

Debt ratio

The debt ratio at the end of reporting period was as follows:

	December 31	
	2019	2018
Total liabilities	<u>\$ 3,742,307</u>	<u>\$ 3,710,786</u>
Total equity	<u>\$ 4,687,215</u>	<u>\$ 4,568,486</u>
Debt ratio	<u>79.84%</u>	<u>81.23%</u>

Times interest earned

The times interest earned during the reporting period was as follows:

	For the Year Ended December 31	
	2019	2018
Profit before income tax	\$ 616,220	\$ 302,029
Interest expense	<u>30,171</u>	<u>16,733</u>
Earnings before interest and tax	<u>\$ 646,391</u>	<u>\$ 318,762</u>
Interest expense	<u>\$ 30,171</u>	<u>\$ 16,733</u>
Times interest earned (times)	<u>21.42</u>	<u>19.05</u>

31. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not measured at fair value

The management considers that the carrying amounts of the financial instruments recognized in the consolidated financial statements approximate their fair values.

b. Fair value of financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Mutual funds	<u>\$ 100,313</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,313</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative financial assets - foreign currency forward contracts	<u>\$ -</u>	<u>\$ 236</u>	<u>\$ -</u>	<u>\$ 236</u>

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

c. Categories of financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL) (1)	\$ 100,313	\$ 236
Financial assets at amortized cost (2)	4,043,084	3,536,768
<u>Financial liabilities</u>		
Financial liabilities at amortized cost (3)	2,927,958	3,292,694

- 1) The balances are mandatorily classified as at FVTPL.
- 2) The balances include financial assets at amortized cost, which comprise cash and cash equivalents, debt investments, notes receivable, trade and other receivables and refundable deposits.
- 3) The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable, trade and other payables, finance lease payables, long-term borrowings and guarantee deposits received.

d. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, trade payables and borrowings. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) are set out in Note 35.

Sensitivity analysis

The Group was mainly exposed to the USD, RMB and EUR.

The following table details the Group's sensitivity to a 1% increase and decrease in the functional currency of the group entities against the relevant foreign currencies. Sensitivity of 1% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates.

A positive number below indicates an increase in pre-tax profit that would result if the functional currency strengthened 1% against the relevant currency. For a 1% weakening of the functional currency against the relevant currency, there would be an equal and opposite impact on pre-tax profit and the balances below would be negative.

	Profit or Loss	
	For the Year Ended December 31	
	2019	2018
USD Impact	\$ 9,685	\$ 1,338
RMB Impact	3,171	2,121
EUR Impact	1,638	5,308

The impact listed above was mainly attributable to the exposure on outstanding USD, RMB and EUR deposits, receivables, payables and borrowings.

The decrease in the impact of EUR on profit or loss is mainly caused by a decrease in trade receivables. The increase in the impact of USD and RMB on profit or loss is mainly caused by an increase in trade receivables.

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates.

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 120,762	\$ 1,536
Financial liabilities	705,787	817,854
Cash flow interest rate risk		
Financial assets	1,622,988	1,108,600
Financial liabilities	62,975	-

The Group was exposed to fair value interest rate risk in relation to fixed-rate bank borrowing.

The Group was exposed to cash flow interest rate risk in relation to floating-rate bank borrowings. The Group's cash flow interest rate risk is mainly concentrated in the fluctuations of the LIBOR arising from the Group's GBP denominated borrowings.

Sensitivity analysis

The sensitivity analysis below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis was prepared assuming the amount of each asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2019 and 2018 would increase/decrease by \$7,800 thousand and \$5,543 thousand, respectively.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to failure of counterparties to discharge an obligation, could arise from the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheets.

Apart from the two largest customers, the Group did not have significant credit risk exposure from any single counterparty or any group of counterparties with similar characteristics. Concentration of credit risk for the customers mentioned above accounted for 12% and 16% of the total gross trade receivables as of December 31, 2019 and 2018, respectively.

The Group's concentration of credit risk by geographical locations was mainly in the U.S.A., mainland China and Europe. The proportion of trade receivables from those mentioned above to total trade receivables were as follows:

	December 31	
	2019	2018
Mainland China	22%	20%
U.S.A.	41%	33%
Europe	13%	19%

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2019 and 2018, the Group had available unutilized bank facilities as set out in (b) below.

a) Liquidity and interest rate risk table for non-derivative financial liabilities

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1+ Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing liabilities	\$ 236,378	\$ 195,013	\$ 1,727,805	\$ -
Variable interest rate liabilities	-	39,360	23,615	-
Fixed interest rate liabilities	<u>313,047</u>	<u>210,977</u>	<u>136,763</u>	<u>45,000</u>
	<u>\$ 549,425</u>	<u>\$ 445,350</u>	<u>\$ 1,888,183</u>	<u>\$ 45,000</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1+ Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing liabilities	\$ 263,557	\$ 213,715	\$ 1,987,472	\$ -
Finance lease payables	139	281	1,329	8,347
Fixed interest rate liabilities	<u>285,582</u>	<u>242,736</u>	<u>89,536</u>	<u>200,000</u>
	<u>\$ 549,278</u>	<u>\$ 456,732</u>	<u>\$ 2,078,337</u>	<u>\$ 208,347</u>

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years	10+ Years
Lease liabilities	<u>\$ 77,870</u>	<u>\$ 54,488</u>	<u>\$ 10,422</u>	<u>\$ -</u>

b) Financing facilities

	December 31	
	2019	2018
Unsecured bank facilities:		
Amount used	\$ 682,813	\$ 613,342
Amount unused	<u>4,686,211</u>	<u>2,191,739</u>
	<u>\$ 5,369,024</u>	<u>\$ 2,805,081</u>
Secured bank facilities:		
Amount used	\$ 85,949	\$ 204,512
Amount unused	<u>775,697</u>	<u>498,357</u>
	<u>\$ 861,646</u>	<u>\$ 702,869</u>

32. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Related party name and relationship

Related Party Name	Related Party Category
Chroma ATE Inc.	Investors with significant influence over the Group
JY Technology (Shanghai)	Associates
JY Technology (Korea)	Associates
Zenitron Corporation	Other related parties
eeWare SAS	Other related parties
Harn-Fen Ni	Other related parties
Fen Zhan Cheng Yi(Beijing)	Other related parties

b. Sales of goods

	For the Year Ended December 31	
	2019	2018
Investors with significant influence over the Group	\$ 7,972	\$ 12,857
Associates	50,943	32,317
Others	<u>435</u>	<u>1,273</u>
	<u>\$ 59,350</u>	<u>\$ 46,447</u>

Transactions with related parties were made at prices and terms comparable to those that would be obtained in similar transactions with non-related parties.

c. Purchases of goods

		For the Year Ended December 31	
		2019	2018
Investors with significant influence over the Group		\$ 493	\$ 311
Others		<u>14,906</u>	<u>15,852</u>
		<u>\$ 15,399</u>	<u>\$ 16,163</u>

Transactions with related parties were made at prices and terms comparable to those that would be obtained in similar transactions with non-related parties.

d. Operating expenses

		For the Year Ended December 31	
Line Item	Related Party Category	2019	2018
Rental expenses	Others	<u>\$ 7,026</u>	<u>\$ 9,132</u>

The rentals were paid semi-annually based on local normal commercial rates.

e. Receivables from related parties

		December 31	
Line Item	Related Party Category	2019	2018
Trade receivables	Investors with significant influence over the Group	\$ 2,752	\$ 3,138
	Associates	<u>20,212</u>	<u>12,376</u>
		<u>\$ 22,964</u>	<u>\$ 15,514</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2019 and 2018, no impairment loss was recognized for trade receivables from related parties.

f. Payables to related parties

		December 31	
Line Item	Related Party Category	2019	2018
Trade payables	Investors with significant influence over the Group	\$ 59	\$ 121
	Others	<u>4,359</u>	<u>4,369</u>
		<u>\$ 4,418</u>	<u>\$ 4,490</u>
Other payables	Investors with significant influence over the Group	\$ 225	\$ 253
	Others	<u>7</u>	<u>-</u>
		<u>\$ 232</u>	<u>\$ 253</u>

The outstanding trade payables to related parties are unsecured.

g. Property, plant and equipment acquired

Related Party Category	Price	
	For the Year Ended December 31 2019	2018
Investors with significant influence over the Group	\$ <u>93</u>	\$ <u>663</u>

h. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 35,862	\$ 31,123
Post-employment benefits	<u>386</u>	<u>392</u>
	\$ <u>36,248</u>	\$ <u>31,515</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of the Company and market trends.

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The assets pledged as collaterals for bank facilities were as follows:

	December 31	
	2019	2018
Land	\$ 66,478	\$ 66,478
Buildings	345,242	396,742
Land use rights (reported as right-of-use assets)	52,774	-
Land use rights (reported as prepayments for lease obligations)	<u>-</u>	<u>56,559</u>
	\$ <u>464,494</u>	\$ <u>519,779</u>

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments of the Group were as follows:

Information on the endorsements or guarantees for subsidiaries was as follows:

	December 31	
	2019	2018
Adlink Technology GmbH	\$ <u>403,080</u>	\$ <u>422,400</u>
Adlink Technology Limited	\$ <u>492,000</u>	\$ <u>388,800</u>
Ampro Adlink Technology Inc.	\$ <u>89,940</u>	\$ <u>-</u>
Adlink Technology Korea Ltd.	\$ <u>29,980</u>	\$ <u>-</u>
All subsidiaries directly or indirectly owned by the Company (facilities shared)	\$ <u>59,960</u>	\$ <u>61,430</u>

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by the foreign currencies other than functional currencies and the related exchange rates between the foreign currencies and the respective functional currencies were as follows:

December 31, 2019

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 56,964	29.98 (USD:NTD)	\$ 1,707,793
USD	16,276	6.98 (USD:RMB)	487,962
USD	6,590	108.62 (USD:JPY)	197,559
USD	5,052	0.89 (USD:EUR)	151,449
USD	1,735	0.76 (USD:GBP)	52,005
RMB	79,245	4.30 (RMB:NTD)	340,551
JPY	50,133	0.28 (JPY:NTD)	13,837
EUR	4,803	33.59 (EUR:NTD)	161,341
EUR	271	0.85 (EUR:GBP)	9,114
GBP	957	1.17 (GBP:EUR)	<u>32,135</u>
			<u>\$ 3,153,746</u>
Non-monetary items			
Investments accounted for using the equity method			
KRW	(84,912)	0.03 (KRW:NTD)	<u>\$ (2,268)</u>
<u>Financial liabilities</u>			
Monetary items			
USD	33,839	29.98 (USD:NTD)	\$ 1,014,508
USD	9,427	6.98 (USD:RMB)	282,636
USD	5,128	108.62 (USD:JPY)	153,731
USD	4,618	0.89 (USD:EUR)	138,438
USD	1,300	0.76 (USD:GBP)	38,983
RMB	5,451	4.30 (RMB:NTD)	23,426
JPY	1,711	0.28 (JPY:NTD)	472
EUR	178	33.59 (EUR:NTD)	5,971
EUR	20	0.85 (EUR:GBP)	674
GBP	330	1.17 (GBP:EUR)	<u>13,008</u>
			<u>\$ 1,671,847</u>

December 31, 2018

	Foreign Currency (In Thousands)	Exchange Rate	Carrying Amount (In Thousands)
<u>Financial assets</u>			
Monetary items			
USD	\$ 41,333	30.72 (USD:NTD)	\$ 1,269,752
USD	4,728	6.86 (USD:RMB)	145,253
USD	5,470	110.41 (USD:JPY)	168,039
USD	6,557	0.87 (USD:EUR)	201,432
USD	415	0.79 (USD:GBP)	12,761
RMB	50,274	4.48 (RMB:NTD)	224,991
JPY	513,089	0.28 (JPY:NTD)	142,741
EUR	15,333	35.20 (EUR:NTD)	539,709
EUR	75	0.91 (EUR:GBP)	2,630
GBP	579	1.10 (GBP:EUR)	<u>22,501</u>
			<u>\$ 2,729,809</u>
Non-monetary items			
Derivative instruments			
USD	3,000	30.72 (USD:NTD)	<u>\$ 236</u>
<u>Financial liabilities</u>			
Monetary items			
USD	24,823	30.72 (USD:NTD)	\$ 762,569
USD	14,447	6.86 (USD:RMB)	443,797
USD	3,910	110.41 (USD:JPY)	120,104
USD	9,106	0.87 (USD:EUR)	279,729
USD	1,864	0.79 (USD:GBP)	57,263
RMB	2,873	4.48 (RMB:NTD)	12,856
JPY	1,130	0.28 (JPY:NTD)	314
EUR	323	35.20 (EUR:NTD)	11,362
EUR	5	0.91 (EUR:GBP)	161
GBP	468	1.10 (GBP:EUR)	<u>18,212</u>
			<u>\$ 1,706,367</u>

For the years ended December 31, 2019 and 2018, realized and unrealized net foreign exchange losses were \$28,953 thousand and \$13,934 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

36. SEGMENT INFORMATION

a. General information

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the regions where the Group operates. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Asia Pacific - Adlink Technology Inc., Adlink Technology Japan Corporation, Adlink Technology Singapore Pte Ltd., Adlink Technology Korea Ltd., and Systemworks Incorporated.

Mainland China - Adlink Technology (China) Co., Ltd., Adlink Technology (Shenzhen) Co., Ltd. and Dong Guan Ling Yao.

America - Ampro Adlink Technology Inc., Adlink Technology Corporation and Adlink Technology Canada Inc.

Europe - Adlink Technology GmbH, PrismTech Group Limited, Adlink Technology Limited, Adlink Technology SARL and Adlink Technology OpenSplice B.V.

b. Information about reportable segments

For the Year Ended December 31, 2019						
	Asia Pacific	Mainland China	America	Europe	Elimination	Total
Sales						
Revenues from external customers	\$ 3,861,587	\$ 1,691,606	\$ 2,960,856	\$ 1,983,021	\$ -	\$ 10,497,070
Inter-segment revenue	<u>4,243,897</u>	<u>1,922,827</u>	<u>-</u>	<u>118,405</u>	<u>(6,285,129)</u>	<u>-</u>
Segment revenue	<u>\$ 8,105,484</u>	<u>\$ 3,614,433</u>	<u>\$ 2,960,856</u>	<u>\$ 2,101,426</u>	<u>\$ (6,285,129)</u>	<u>\$ 10,497,070</u>
Interest income	\$ 3,589	\$ 2,365	\$ 1,391	\$ 76	\$ -	\$ 7,421
Finance costs	1,377	21,873	396	6,525	-	30,171
Depreciation expense	101,038	87,976	31,900	28,037	-	248,951
Amortization expense	55,866	327	2,649	36,913	-	95,755
Other significant non-cash items						
Impairment losses	-	-	-	159,996	-	159,996
Segment income (loss)	<u>\$ 2,174,669</u>	<u>\$ 133,895</u>	<u>\$ 72,956</u>	<u>\$ (241,061)</u>	<u>\$ -</u>	<u>2,140,459</u>
Unallocated amounts:						
Headquarters' administration costs and remuneration of directors and supervisors						<u>1,524,239</u>
Profit before income tax						<u>\$ 616,220</u>

For the Year Ended December 31, 2018						
	Asia Pacific	Mainland China	America	Europe	Elimination	Total
Sales						
Revenues from external customers	\$ 4,577,231	\$ 1,384,045	\$ 2,337,473	\$ 2,178,359	\$ -	\$ 10,477,108
Inter-segment revenue	<u>3,701,086</u>	<u>2,294,565</u>	<u>-</u>	<u>79,805</u>	<u>(6,075,456)</u>	<u>-</u>
Segment revenue	<u>\$ 8,278,317</u>	<u>\$ 3,678,610</u>	<u>\$ 2,337,473</u>	<u>\$ 2,258,164</u>	<u>\$ (6,075,456)</u>	<u>\$ 10,477,108</u>
Interest income	\$ 2,973	\$ 1,548	\$ 301	\$ 66	\$ -	\$ 4,888
Finance costs	1,406	11,782	-	3,545	-	16,733
Depreciation expense	70,322	88,786	10,519	7,656	-	177,283
Amortization expense	58,406	717	3,057	38,073	-	100,253
Other significant non-cash items						
Impairment losses	-	-	-	21,408	-	21,408
Segment income (loss)	<u>\$ 1,956,569</u>	<u>\$ 31,849</u>	<u>\$ 2,574</u>	<u>\$ (269,566)</u>	<u>\$ -</u>	<u>1,721,426</u>
Unallocated amounts:						
Headquarters' administration costs and remuneration of directors and supervisors						<u>1,419,397</u>
Profit before income tax						<u>\$ 302,029</u>