AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2019 AND 2018

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIS

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2019, pursuant to "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises," the Company that is required to be included in the consolidated financial statements of affiliates, is the same as the Company required to be included in the consolidated financial statements of parent and subsidiary companies under International Financial Reporting Standard No. 10. And if relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies, it shall not be required to prepare separate consolidated financial statements of affiliates.

Hereby declare,

Auras Technology Co., Ltd. and subsidiaries

Representative: Lin, Yu-Shen

March 17, 2020

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Auras Technology Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Auras Technology Co., Ltd. and its subsidiaries (the "Group") as at December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit of the consolidated financial statements as of and for the year ended December 31, 2019 in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants", "Rule No. Financial-Supervisory-Securities-Auditing-1090360805 issued by the Financial Supervisory Commission on February 25, 2020" and generally accepted auditing standards in the Republic of China (ROC GAAS); and in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS) for our audit of the consolidated financial statements as of and for the year ended December 31, 2018. Our responsibilities under those standards are further described in the Independent Accountant's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

The most significant key audit matters in our audit of the consolidated financial statements of the current period are as follows:

Cutoff of warehouse sales revenue

Description

The Group's sales revenue mainly arises from warehouse sales revenue, which is recognised when the merchandises are delivered to customers (when control of the product is transferred). For the accounting policies on revenue recognition, refer to Note 4(28).

The supporting documents of revenue recognition include reports or other information provided by warehouse custodians and inventory movement records of warehouse.

The Group has several warehouses around the world and each warehouse has its own custodian. Further, the frequency and contents of statements provided by custodians are different and involves manual processes which may cause improper revenue recognition.

As there are numerous daily sales transactions from the distribution warehouse and the transaction amounts before and after the balance sheet date are significant to the financial statements, we consider the cutoff of sales revenue from distribution warehouse a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Inspected the sales revenue, verified corroboration of sales revenue recognition, and assessed the timing of revenue recognition based on trade terms to ensure the appropriateness of sales revenue recognition.
2. Assessed and checked the appropriateness of cutoff of sales revenue around the balance sheet date, and verified the statements provided by the warehouse custodian.
3. Confirmed the inventory quantities with warehouse custodian and agreed the results to accounting records. In addition, inspected the reason for the difference between the confirmation replies and accounting records and tested the reconciling items made by the Group in order to confirm whether the significant differences have been adjusted.

Assessment of allowance for inventory valuation losses

Description

Refer to Note 4(12) for the accounting policies on inventory valuation, Note 5(2) for the uncertainty of accounting estimates and assumptions in relation to inventory valuation and Note 6(6) for the details of inventory. As of December 31, 2019, the balance of inventories and allowance for inventory valuation losses amounted to NT$1,345,923 thousand and NT$85,026 thousand, respectively.

The Group is primarily engaged in the sales of heat dissipation modules and its components of computer and mobile device, which are manufactured by subsidiaries. Due to the short life cycle of electronic products and fluctuating electronics prices, there is higher risk of incurring losses on inventory valuation or inventory obsolescence. The Group measures inventory at the lower of cost and net realisable value. Allowance for inventory valuation loss mainly arises from obsolete or damaged inventories, and its net realisable value is estimated based on historical experience in accounting for obsolete inventories. The calculation of net realisable value for obsolete or damaged inventory involves manual judgement since the Group has a wide range of inventory items and the inventory amount is significant. Thus, we consider the estimation of allowance for inventory valuation losses a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Ascertained whether the policies on allowance for inventory valuation losses were reasonable and consistently applied in all the periods.
2. Verified whether the systematic logic used in the Group's inventory aging report is appropriate and in accordance with the Group's accounting policy; and
3. Discussed with the management the net realisable value of inventories that were individually identified as obsolete and damaged and obtained supporting documents to determine the reasonableness of allowance for inventory valuation losses.

Appropriateness of manual journal entries

Description

The amounts in the financial statements represent the Group's transactions recorded through journal entries, which had been posted, accumulated and classified. The journal entries are either system-generated or manually prepared. For system-generated journal entries, the Group uses front-end subsystem (i.e. sales, purchasing and inventory systems) to process the original transactions and its approval procedures, which are then summarized and recorded through a journal entry automatically generated by the system. Manually prepared journal entries are those which are prepared, approved and recorded manually.

Because of the diversity and complexity of the Company's operations and manual journal entries are subject to management judgement, an inappropriate manual journal entry may be processed which would lead to misstatements in the financial statements. Thus, we consider the appropriateness of manual journal entries a key audit matter.

How our audit addressed the matter

We performed the following audit procedures in respect of the above key audit matter:

1. Obtained an understanding and assessed the nature of manual journal entries, the procedures in relation to generating the entries, the efficiency of control and the proper segregation of duties.
2. Inspected the adequacy of related supporting documents and entries, and checked whether the accounting entries were made and approved by authorised personnel.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Auras Technology Co., Ltd. as at and for the years ended December 31, 2019 and 2018.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the 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 Supervisors, are responsible for overseeing the Group's financial reporting process.

Independent accountant’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a 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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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 controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal controls.
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 report to the related disclosures in the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

Hsu, Yung-Chien　　　　　　　　　　Wu, Han-Chi

For and on behalf of PricewaterhouseCoopers, Taiwan
March 17, 2020

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Assets	Notes	December 31, 2019			December 31, 2018		
				AMOUNT	%		AMOUNT	%
	Current assets							
1100	Cash and cash equivalents	6(1)	$	459,026	6	$	421,322	7
1110	Financial assets at fair value through profit or loss - current	6(2)		-	-		11	-
1170	Accounts receivable, net	6(4)		3,544,853	47		2,450,208	42
1200	Other receivables	6(5) and 7		48,042	1		89,330	2
130X	Inventory	6(6)		1,260,897	17		1,247,865	22
1470	Other current assets	6(7) and 8		194,761	2		105,298	2
11XX	**Total current assets**			5,507,579	73		4,314,034	75
	Non-current assets							
1510	Financial assets at fair value through profit or loss - non-current	6(2)		1,909	-		-	-
1517	Non-current financial assets at fair value through other comprehensive income	6(3)		11,484	-		10,740	-
1550	Investments accounted for under equity method	6(8)		99,503	2		139,103	2
1600	Property, plant and equipment	6(9)		1,498,594	20		1,029,504	18
1755	Right-of-use assets	6(10)		144,505	2		-	-
1840	Deferred income tax assets	6(25)		11,567	-		2,576	-
1900	Other non-current assets	6(11)		248,432	3		283,956	5
15XX	**Total non-current assets**			2,015,994	27		1,465,879	25
1XXX	**Total assets**		$	7,523,573	100	$	5,779,913	100

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AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Liabilities and Equity	Notes	December 31, 2019 AMOUNT	%	December 31, 2018 AMOUNT	%
	Current liabilities					
2100	Short-term borrowings	6(12)	$ 257,158	3	$ 682,869	12
2110	Short-term notes and bills payable		-	-	50,000	1
2170	Accounts payable		2,489,231	33	2,142,801	37
2180	Accounts payable - related parties	7	8,690	-	19,512	-
2200	Other payables	6(13) and 7	745,869	10	509,941	9
2230	Current income tax liabilities		186,968	3	34,514	1
2280	Current lease liabilities		32,995	1	-	-
2320	Long-term liabilities, current portion	6(14)	-	-	26,675	-
2399	Other current liabilities		11,381	-	5,002	-
21XX	**Total current liabilities**		3,732,292	50	3,471,314	60
	Non-current liabilities					
2530	Bonds payable	6(14)	235,217	3	-	-
2580	Non-current lease liabilities		32,416	-	-	-
25XX	**Total non-current liabilities**		267,633	3	-	-
2XXX	**Total liabilities**		3,999,925	53	3,471,314	60
	Equity					
	Equity attributable to owners of parent					
	Share capital	6(17)				
3110	Share capital - common stock		850,977	12	830,116	14
3130	Certificates of bond-to-stock conversion		13,421	-	815	-
3140	Advance receipts for share capital		100	-	500	-
	Capital surplus	6(18)				
3200	Capital surplus		1,038,174	13	686,920	12
	Retained earnings	6(19)				
3310	Legal reserve		167,638	2	144,339	3
3320	Special reserve		11,222	-	-	-
3350	Unappropriated retained earnings		1,634,321	22	831,177	14
	Other equity interest					
3400	Other equity interest		(88,489)	(1)	(11,222)	-
3500	**Treasury stocks**	6(17)	(120,073)	(1)	(185,473)	(3)
31XX	**Equity attributable to owners of the parent**		3,507,291	47	2,297,172	40
36XX	**Non-controlling interest**		16,357	-	11,427	-
3XXX	**Total equity**		3,523,648	47	2,308,599	40
	Significant contingent liabilities and unrecognised contract commitments	9				
	Significant events after the balance sheet date	11				
3X2X	**Total liabilities and equity**		$ 7,523,573	100	$ 5,779,913	100

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

AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

			For the years ended December 31			
			2019		2018	
	Items	Notes	AMOUNT	%	AMOUNT	%
4000	**Operating revenue**	6(20) and 14	$ 10,247,561	100	$ 7,654,265	100
5000	**Operating costs**	6(6) and 7	(8,131,060)	(79)	(6,687,287)	(88)
5900	**Net operating margin**		2,116,501	21	966,978	12
	Operating expenses	6(24)				
6100	Selling expenses		(289,531)	(3)	(265,689)	(3)
6200	General and administrative expenses		(289,939)	(3)	(239,204)	(3)
6300	Research and development expenses		(347,310)	(3)	(279,699)	(4)
6450	Expected credit loss	12(2)	(1,453)	-	-	-
6000	**Total operating expenses**		(928,233)	(9)	(784,592)	(10)
6900	**Operating profit**		1,188,268	12	182,386	2
	Non-operating income and expenses					
7010	Other income	6(21) and 7	106,206	1	148,072	2
7020	Other gains and losses	6(22)	(13,802)	-	15,243	-
7050	Finance costs	6(23)	(28,900)	-	(21,238)	-
7060	Share of profit/(loss) of associates and joint ventures accounted for under equity method	6(8)	(38,247)	(1)	(30,161)	-
7000	**Total non-operating income and expenses**		25,257	-	111,916	2
7900	**Profit before income tax**		1,213,525	12	294,302	4
7950	Income tax expense	6(25)	(244,097)	(2)	(62,797)	(1)
8200	**Profit for the year**		$ 969,428	10	$ 231,505	3

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AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

	Items	Notes	For the years ended December 31 2019 AMOUNT	2019 %	2018 AMOUNT	2018 %
	Other comprehensive income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8316	Unrealised gains on financial assets at fair value through other comprehensive income	6(3)	$ 744	-	$ 2,092	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		(75,185)	(1)	(28,006)	-
8370	Share of other comprehensive loss of associates and joint ventures accounted for under equity method		(3,353)	-	(190)	-
8360	**Other comprehensive loss that will be reclassified to profit or loss**		(78,538)	(1)	(28,196)	-
8300	**Other comprehensive loss - net**		($ 77,794)	(1)	($ 26,104)	-
8500	**Total comprehensive income for the year**		$ 891,634	9	$ 205,401	3
	Profit (loss) attributable to:					
8610	Owners of the parent		$ 963,971	10	$ 232,987	3
8620	Non-controlling interest		5,457	-	(1,482)	-
			$ 969,428	10	$ 231,505	3
	Comprehensive income (loss) attributable to:					
8710	Owners of the parent		$ 886,704	9	$ 207,073	3
8720	Non-controlling interest		4,930	-	(1,672)	-
			$ 891,634	9	$ 205,401	3
	Earnings per share	6(26)				
9750	**Basic earnings per share**		$ 11.71		$ 2.90	
9850	**Diluted earnings per share**		$ 11.39		$ 2.85	

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

AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

		Equity attributable to owners of the parent												
		Capital				Retained Earnings			Other Equity Interest					
	Notes	Share capital - common stock	Certificates of bond-to-stock conversion	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains from financial assets measured at fair value through other comprehensive income	Treasury stocks	Total	Non-controlling interest	Total equity
For the year ended December 31, 2018														
Balance at January 1, 2018		$ 807,033	$ -	$ 130	$ 597,311	$ 115,324	$ -	$ 789,866	$ 14,692	$ -	($ 135,534)	$ 2,188,822	$ 13,099	$ 2,201,921
Profit (loss) for the year		-	-	-	-	-	-	232,987	-	-	-	232,987	(1,482)	231,505
Other comprehensive income (loss) for the year		-	-	-	-	-	-	-	(28,006)	2,092	-	(25,914)	(190)	(26,104)
Total comprehensive income (loss)		-	-	-	-	-	-	232,987	(28,006)	2,092	-	207,073	(1,672)	205,401
Appropriation and distribution of 2017 retained earnings	6(19)													
Legal reserve		-	-	-	-	29,015	-	(29,015)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(162,661)	-	-	-	(162,661)	-	(162,661)
Conversion of convertible bonds	6(14)	16,843	815	-	78,511	-	-	-	-	-	-	96,169	-	96,169
Employee share options	6(16)	6,240	-	370	6,013	-	-	-	-	-	-	12,623	-	12,623
Compensation cost of share-based payments	6(16)	-	-	-	5,085	-	-	-	-	-	-	5,085	-	5,085
Acquisition of treasury shares	6(17)	-	-	-	-	-	-	-	-	-	(49,939)	(49,939)	-	(49,939)
Balance at December 31, 2018		$ 830,116	$ 815	$ 500	$ 686,920	$ 144,339	$ -	$ 831,177	($ 13,314)	$ 2,092	($ 185,473)	$ 2,297,172	$ 11,427	$ 2,308,599
For the year ended December 31, 2019														
Balance at January 1, 2019		$ 830,116	$ 815	$ 500	$ 686,920	$ 144,339	$ -	$ 831,177	($ 13,314)	$ 2,092	($ 185,473)	$ 2,297,172	$ 11,427	$ 2,308,599
Profit for the year		-	-	-	-	-	-	963,971	-	-	-	963,971	5,457	969,428
Other comprehensive income (loss) for the year		-	-	-	-	-	-	-	(78,011)	744	-	(77,267)	(527)	(77,794)
Total comprehensive income (loss)		-	-	-	-	-	-	963,971	(78,011)	744	-	886,704	4,930	891,634
Appropriation and distribution of 2018 retained earnings	6(19)													
Legal reserve		-	-	-	-	23,299	-	(23,299)	-	-	-	-	-	-
Special reserve		-	-	-	-	-	11,222	(11,222)	-	-	-	-	-	-
Cash dividends		-	-	-	-	-	-	(125,226)	-	-	-	(125,226)	-	(125,226)
Convertible bonds issued	6(14)	-	-	-	31,340	-	-	-	-	-	-	31,340	-	31,340
Conversion of bonds payable	6(14)	18,581	12,606	-	319,746	-	-	-	-	-	-	350,933	-	350,933
Employee share options	6(16)	2,280	-	(400)	1,456	-	-	-	-	-	-	3,336	-	3,336
Treasury shares transferred to employees		-	-	-	(1,288)	-	-	(1,080)	-	-	65,400	63,032	-	63,032
Balance at December 31, 2019		$ 850,977	$ 13,421	$ 100	$ 1,038,174	$ 167,638	$ 11,222	$ 1,634,321	($ 91,325)	$ 2,836	($ 120,073)	$ 3,507,291	$ 16,357	$ 3,523,648

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

AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		$ 1,213,525	$ 294,302
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(24)	253,647	138,706
Amortisation	6(24)	23,230	21,670
Expected credit loss	12(2)	1,453	-
Interest expense (including accounts receivable factoring expenses)	6(23)	28,900	21,238
Interest income		(1,431)	(1,099)
Share of loss of associates accounted for using equity method		38,247	30,161
Loss on disposal of property, plant and equipment	6(22)	6,235	6,298
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	6(22)	(10,243)	24
Compensation cost of share-based payments	6(16)	-	5,085
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		(1,206,632)	(151,082)
Other receivables		39,919	(9,267)
Inventories		(42,155)	(332,298)
Prepayments		(88,016)	20,311
Other current assets		(1,096)	(4,520)
Changes in operating liabilities			
Accounts payable		442,521	111,137
Accounts payable - related parties		(5,578)	(4,513)
Other payables		201,729	40,161
Other current liabilities		6,379	1,937
Cash inflow generated from operations		900,634	188,251
Interest received		1,431	1,099
Interest paid		(24,810)	(18,290)
Income tax paid		(100,634)	(58,005)
Net cash flows from operating activities		776,621	113,055
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	6(27)	(612,316)	(159,302)
Proceeds from disposal of property, plant and equipment		53	745
Increase in other non-current assets		(8,508)	(42,494)
Increase in other financial assets	8	(6,000)	-
Acquisition of investments accounted for using equity method		(2,000)	-
Increase in prepayments for business facilities		(146,824)	(84,529)
Net cash flows used in investing activities		(775,595)	(285,580)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Decrease) increase in short-term borrowings	6(28)	(416,391)	442,706
(Decrease) increase in short-term notes and bills payable	6(28)	(50,000)	50,000
Proceeds from issuing bonds	6(28)	600,000	-
Exercise of employee share options		3,336	12,623
Repayment of the principal portion of lease liabilities		(36,436)	-
Cash dividends paid		(125,226)	(162,661)
Acquisition of treasury shares	6(16)	-	(49,939)
Treasury shares transferred to employees		63,032	-
Net cash flows from financing activities		38,315	292,729
Effect of changes in foreign currency exchange		(1,637)	(807)
Net increase in cash and cash equivalents		37,704	119,397
Cash and cash equivalents at beginning of year		421,322	301,925
Cash and cash equivalents at end of year		$ 459,026	$ 421,322

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

AURAS TECHNOLOGY CO., LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Auras Technology Co., Ltd. (the "Company") was established as a company limited by shares as approved by the Ministry of Economic Affairs on August 24, 1998, and listed on the Taipei Exchange in May 2005. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in heat flow consulting service and manufacturing, processing and retail of electronic materials, computer heat dissipation modules and other related products.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 17, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

IFRS 16, 'Leases'

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

B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying "IFRSs" effective in 2019 as endorsed by the FSC. Accordingly, the Group increased 'right-of-use asset' by $26,146 and increased 'lease liability' by $26,146 with respect to the lease contracts of lessees on January 1, 2019. The Company increased 'right-of-use asset' by $84,514 and decreased other non-current liabilities by $84,514 with respect to the land use right contract.

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

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

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

(c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of $1,157 was recognised for the year ended December 31, 2019.

(d) The exclusion of initial direct costs for the measurement of 'right-of-use asset'.

(e) The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

D. The Group calculated the present value of lease liabilities by using weighted average incremental borrowing interest rate ranging from 1.06% to 4.46%.

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

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	$	28,809
Less: Short-term leases	(	1,157)
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019	$	27,652
Incremental borrowing interest rate at the date of initial application		1.06%~4.46%
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	$	26,146

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

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

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

(2) Basis of preparation

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

(a) Financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(b) Financial assets at fair value through other comprehensive income.

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.

(b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

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

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%) December 31, 2019	Ownership (%) December 31, 2018	Description
AURAS Technology Co., Ltd.	LI-HORNG Technology Co., Ltd.	Holding company	100	100	
AURAS Technology Co., Ltd.	RAIJINTEK Co., Ltd.	Subsidiary	56	56	
AURAS Technology Co., Ltd.	AURAS International Inc.	Subsidiary	100	100	
AURAS Technology Co., Ltd.	HAO-HORNG Technology Co., Ltd.	Subsidiary	100	100	
LI-HORNG Technology Co., Ltd.	SHUANG HORNG Technology Co., Ltd.	Holding company	100	100	
LI-HORNG Technology Co., Ltd.	ZE HORNG Technology Co., Ltd.	Holding company	100	100	
LI-HORNG Technology Co., Ltd.	PEL HORNG Technology Co., Ltd.	Holding company	100	100	
LI-HORNG Technology Co., Ltd.	ZHEN HORNG Technology Co., Ltd.	Holding company	100	100	
LI-HORNG Technology Co., Ltd.	SHIH HORNG Technology Co., Ltd.	Holding company	100	100	
SHUANG HORNG Technology Co., Ltd.	AURAS Technology (KUNSHAN) Co., Ltd.	Manufacturing company	100	100	

Name of investor	Name of subsidiary	Main business activities	Ownership (%) December 31, 2019	Ownership (%) December 31, 2018	Description
ZE HONG Technology Co., Ltd.	Ze Hong (Guangzhou) Technology Co., Ltd.	Manufacturing company	100	100	
PEL HORNG Technology Co., Ltd.	Pel Horng (Guangzhou) Technology Co., Ltd.	Manufacturing company	100	100	
ZHEN HORNG Technology Co., Ltd.	AURAS Technology (CHONGQING) Co., Ltd.	Manufacturing company	100	100	
AURAS Technology (KUNSHAN) Co., Ltd.	Anhui Wei-hong Electronic Technology Co., Ltd.	Manufacturing company	60	60	

C. Subsidiaries included in the consolidated financial statements and movements of the periods were as follows:

For the years ended December 31, 2019 and 2018, the financial statements and related information of subsidiaries included in the consolidated financial statements were all audited by independent accountants.

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

E. Adjustments for subsidiaries with different balance sheet dates: None.

F. Significant restrictions: None.

G. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

A. The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

B. Foreign currency transactions and balances

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

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

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

(d) The foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

C. Translation of foreign operations

The operating results and financial position of all the group entities and associates that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

(c) All resulting exchange differences are recognised in other comprehensive income.

(d) When the foreign operation partially disposed of or sold is an associate or joint arrangement, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, if the Group retains partial interest in the former foreign associate or joint arrangements after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangements, such transactions should be accounted for as disposal of all interest in these foreign operations.

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

(5) Classification of current and non-current items

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

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

(b) Assets held mainly for trading purposes;

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

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

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

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

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

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

A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.

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

D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Group’s business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets' contractual cash flows represent solely payments of principal and interest.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.

C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

(a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(9) Accounts and notes receivable

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

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

C. The Group's operating pattern of accounts receivable that are expected to be factored is for the purpose of receiving contract cash flow and selling, and the accounts receivable are subsequently measured at fair value, with any changes in fair value recognised in other comprehensive income.

(10) Impairment of financial assets

For accounts receivable that have a significant financing component, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(11) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

A. The contractual rights to receive the cash flows from the financial asset expire.

B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.

C. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has not retained control of the financial asset.

(12) Inventories

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

(13) Investments accounted for using equity method / associates

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

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

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

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

E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.

F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognised in profit or loss.

G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of.

(14) Property, plant and equipment

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

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

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

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

Buildings and structures	12 ~20 years
Machinery and equipment	3 ~10 years
Leasehold improvements	3 years
Other assets	3 ~10 years

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

Effective 2019

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

B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following:

(a) Fixed payments, less any lease incentives receivable;

(b) Variable lease payments that depend on an index or a rate;

(c) Amounts expected to be payable by the lessee under residual value guarantees;

(d) The exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and

(e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Group subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost comprising the following:

(a) The amount of the initial measurement of lease liability;

(b) Any lease payments made at or before the commencement date;

(c) Any initial direct costs incurred by the lessee; and

(d) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(16) Leased assets/operating leases (lessee)

Prior to 2019

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

(17) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(18) Borrowings

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

(19) Notes and accounts payable

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

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

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

A. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges.

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

(21) Derecognition of financial liabilities

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

(22) Convertible bonds payable

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

A. The embedded call options and put options are recognised initially at net fair value as 'financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognised as 'gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.

B. The host contracts of bonds are initially recognised at fair value. Any difference between the initial recognition and the redemption value is accounted for as the premium or discount on bonds payable and subsequently is amortised in profit or loss as an adjustment to 'finance costs' over the period of circulation using the effective interest method.

C. The embedded conversion options which meet the definition of an equity instrument are initially recognised in 'capital surplus-share options' at the residual amount of total issue price less the amount of financial assets or financial liabilities at fair value through profit or loss and bonds payable as stated above. Conversion options are not subsequently remeasured.

D. Any transaction costs directly attributable to the issuance are allocated to each liability or equity component in proportion to the initial carrying amount of each abovementioned item.

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

F. If bondholders could exercise the put option in the next year, the corporate bonds payable should be reclassified as current liabilities; otherwise, when the put option exceeds its exercise period, the corporate bonds payable with unexercised put option should be reversed as non-current liabilities.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated.

(24) <u>Employee share-based payment</u>

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

(25) <u>Income tax</u>

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

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

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

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

E. A deferred tax asset shall be recognised for the carryforward of unused tax credits to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(26) Treasury shares

Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(27) Dividends

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

(28) Revenue recognition

A. The Group manufactures and sells heat dissipation module products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customers, and either the customers has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

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

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

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

The Group has no accounting policy which involves significant judgement and has material impact on recognition amount.

(2) Critical accounting estimates and assumptions

The Group makes accounting estimates in applying reasonable expectation concerning future events. However, assumptions and estimates may differ from the actual results. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

Evaluation of inventories

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

As of December 31, 2019, the carrying amount of inventories was $1,260,897.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and revolving funds	$ 2,141	$ 1,987
Checking accounts and demand deposits	456,885	419,335
Time deposits	$ 459,026	$ 421,322

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

B. For the Group's cash in bank pledged to others, please refer to Note 8.

(2) Financial assets and liabilities at fair value through profit or loss

Assets items	December 31, 2019	December 31, 2018
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Put and call options of secured convertible bonds	$ -	$ 2,171
Valuation adjustment	-	(2,160)
	$ -	$ 11

Assets items	December 31, 2019	December 31, 2018
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Put and call options of unsecured convertible bonds	$ -	$ -
Valuation adjustment	1,909	-
	$ 1,909	$ -

Liabilities items	December 31, 2019	December 31, 2018
Non-current items:		
Financial liabilities held for trading		
Put and call options of unsecured convertible bonds	$ 6,480	$ -
Valuation adjustment	(6,480)	-
	$ -	$ -

A. The Group has no financial assets and liabilities at fair value through profit or loss pledged to others.

B. The Group recognised net gain (loss) on financial assets and liabilities at fair value through profit or loss as part of 'other gains and losses', and the related amount is shown in Note 6 (22).

C. Information relating to credit risk of financial assets and liabilities at fair value through profit or loss is provided in Note 12(2).

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

Items	December 31, 2019	December 31, 2018
Non-current items:		
Unlisted stocks	$ 8,648	$ 8,648
Valuation adjustment	2,836	2,092
	$ 11,484	$ 10,740

A. The Group has no financial assets at fair value through other comprehensive income pledged to others.

B. For the years ended December 31, 2019 and 2018, the amounts of fair value changes recognised in other comprehensive income were $744 and $2,092, respectively, for the financial assets at fair value through other comprehensive income.

C. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

(4) Accounts receivable, net

	December 31, 2019	December 31, 2018
Notes receivable	$ 188,577	$ 7,115
Accounts receivable	3,362,654	2,448,155
Less: Allowance for bad debts	(6,378)	(5,062)
	$ 3,544,853	$ 2,450,208

A. The ageing analysis of accounts receivable that were past due but not impaired is as follows

	December 31, 2019	December 31, 2018
Not past due	$ 3,472,499	$ 2,398,101
1 to 90 days	64,228	50,102
91 to 180 days	5,118	1,741
Over 180 days	9,386	5,326
	$ 3,551,231	$ 2,455,270

The above ageing analysis was based on past due date.

B. As of December 31, 2019 and 2018, accounts receivable and notes receivable were all from contracts with customers. As of January 1, 2018, the balance of receivables from contracts with customers amounted to $2,350,509.

C. The Group does not hold any collateral as security.

D. On December 31, 2019 and 2018, the Group had accounts receivable classified as financial assets at fair value through other comprehensive income in the amounts of $853,654 and $326,784, respectively. Please refer to Note 6(5) for information on transfer of financial assets.

E. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(5) Transfer of financial assets

The Group entered into a factoring agreement with a bank to sell its accounts receivable. Under the agreement, the Group is not obligated to bear the default risk of the transferred accounts receivable, but is liable for the losses incurred on any business dispute, which meet the derecognition criteria of financial assets. Further, the Group does not have any continuing involvement in the transferred accounts receivable. Thus, the Group derecognised the transferred accounts receivable, and the related information is as follows:

December 31, 2019					
Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Amount advanced	Amount available for advance	Interest rate of amount advanced
Mega International Commercial Bank, etc.	$ 106,385	$ 106,385	$ 83,245	$ 12,502	2.57%~2.73%

December 31, 2018					
Purchaser of accounts receivable	Accounts receivable transferred	Amount derecognised	Amount advanced	Amount available for advance	Interest rate of amount advanced
Taishin International Bank, etc.	$ 460,568	$ 460,568	$ 392,546	$ 21,965	3.35%~3.99%

A. As of December 31, 2019 and 2018, the Group had retention for the factoring of accounts receivable (shown as "Other receivables") in the amounts of $10,638 and $46,057, respectively.

B. Expense arising from accounts receivable factoring is accounted as 'financial cost', and the related amount is shown in Note 6 (23).

(6) Inventories

	December 31, 2019		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 208,286	($ 17,337)	$ 190,949
Work in progress	464,095	(30,606)	433,489
Finished goods	667,202	(36,220)	630,982
Merchandise	6,340	(863)	5,477
	$ 1,345,923	($ 85,026)	$ 1,260,897

	December 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	$ 258,875	($ 4,275)	$ 254,600
Work in progress	408,232	(15,597)	392,635
Finished goods	603,214	(6,854)	596,360
Merchandise	6,192	(1,922)	4,270
	$ 1,276,513	($ 28,648)	$ 1,247,865

The cost of inventories recognised as expense for the year:

	For the years ended December 31, 2019	For the years ended December 31, 2018
Cost of goods sold	$ 7,982,911	$ 6,610,500
Loss on market value decline of inventories	112,731	35,546
Loss on scrapping inventory	65,359	61,349
(Gain) loss on physical inventory	(2,532)	1,726
Sale of scraps	(27,409)	(21,834)
	$ 8,131,060	$ 6,687,287

(7) Other current assets

	December 31, 2019	December 31, 2018
Business tax paid	$ 159,515	$ 84,567
Prepaid expenses	14,888	7,248
Pledged time deposits	7,509	1,513
Others	12,849	11,970
	$ 194,761	$ 105,298

(8) Investments accounted for using equity method

	December 31, 2019		December 31, 2018	
Company name	Amount	%	Amount	%
JCD OPTICAL (CAYMAN) CO., LTD. (JCD CAYMAN)	$ 90,906	34.75	$ 125,582	34.75
PRO JUMP CO., LTD.	5,605	36.00	12,547	36.00
MILK IDEA INC.	2,992	20.00	974	20.00
	$ 99,503		$ 139,103	

A. Associates

(a) On December 31, 2019 and 2018, the basic information of the associate that is material to the Group and comprise above 1% of total assets is as follows:

			Shareholding ratio			
Company name	Registered country	Principal place of business	December 31, 2019	December 31, 2018	Nature of relationship	Method of measurement
JCD CAYMAN	Cayman	China	34.75%	34.75%	Note	Equity method

Note: Owns more than 20% of voting rights

(b) The summarised financial information of the associate that is material to the Group is shown below:

Balance sheet

	JCD CAYMAN	
	December 31, 2019	December 31, 2018
Current assets	$ 286,140	$ 329,459
Non-current assets	144,542	145,261
Current liabilities	(152,633)	(113,332)
Non-current liabilities	(16,448)	-
Total net assets	$ 261,601	$ 361,388
Share in associate's net assets	$ 90,906	$ 125,582
Carrying amount of the associate	$ 90,906	$ 125,582

Statement of comprehensive income

	JCD CAYMAN	
	For the years ended December 31,	
	2019	2018
Revenue	$ 256,418	$ 304,350
Loss for the year from continuing operations	(86,005)	(68,773)
Other comprehensive loss, net of tax	(3,183)	(13,905)
Total comprehensive loss	($ 89,188)	($ 82,678)

(c) The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarised below:

As of December 31, 2019 and 2018, the carrying amount of the Group's individually immaterial associates amounted to $8,597 and $13,521, respectively. The operating results were as follows:

	For the years ended December 31,	
	2019	2018
Loss from continuing operations	($ 18,323)	($ 12,435)

B. The balances of aforementioned loss on investments accounted for using equity method for the years ended December 31, 2019 and 2018 were $38,247 and $30,161, respectively.

(9) Property, plant and equipment

	Buildings and structures	Machinery and equipment	Leasehold improvements	Others	Total
At January 1, 2019					
Cost	$ 672,246	$ 849,308	$ 74,191	$ 243,386	$ 1,839,131
Accumulated depreciation	(271,571)	(345,181)	(55,302)	(137,573)	(809,627)
	$ 400,675	$ 504,127	$ 18,889	$ 105,813	$ 1,029,504
2019					
Opening net book amount as at January 1	$ 400,675	$ 504,127	$ 18,889	$ 105,813	$ 1,029,504
Additions	41,380	445,985	14,689	168,852	670,906
Disposals	-	(4,380)	(19)	(1,889)	(6,288)
Transfers	1,891	71,498	(1,891)	5,616	77,114
Depreciation charge	(45,341)	(150,607)	(3,723)	(15,163)	(214,834)
Net exchange differences	(14,886)	(32,379)	(1,030)	(9,513)	(57,808)
Closing net book amount as at December 31	$ 383,719	$ 834,244	$ 26,915	$ 253,716	$ 1,498,594
At December 31, 2019					
Cost	$ 689,091	$ 1,295,202	$ 82,759	$ 387,700	$ 2,454,752
Accumulated depreciation	(305,372)	(460,958)	(55,844)	(133,984)	(956,158)
	$ 383,719	$ 834,244	$ 26,915	$ 253,716	$ 1,498,594

	Buildings and structures	Machinery and equipment	Leasehold improvements	Others	Total
At January 1, 2018					
Cost	$ 578,272	$ 748,997	$ 75,668	$ 394,551	$ 1,797,488
Accumulated depreciation	(239,488)	(288,036)	(57,886)	(215,908)	(801,318)
	$ 338,784	$ 460,961	$ 17,782	$ 178,643	$ 996,170
2018					
Opening net book amount as at January 1	$ 338,784	$ 460,961	$ 17,782	$ 178,643	$ 996,170
Additions	-	105,912	310	80,602	186,824
Disposals	(47)	(5,425)	-	(1,571)	(7,043)
Transfers	108,096	38,141	5,029	(137,896)	13,370
Depreciation charge	(37,901)	(85,037)	(3,847)	(11,921)	(138,706)
Net exchange differences	(8,257)	(10,425)	(385)	(2,044)	(21,111)
Closing net book amount as at December 31	$ 400,675	$ 504,127	$ 18,889	$ 105,813	$ 1,029,504
At December 31, 2018					
Cost	$ 672,246	$ 849,308	$ 74,191	$ 243,386	$ 1,839,131
Accumulated depreciation	(271,571)	(345,181)	(55,302)	(137,573)	(809,627)
	$ 400,675	$ 504,127	$ 18,889	$ 105,813	$ 1,029,504

(10) Leasing arrangements－lessee

Effective 2019

A. The Group leases various assets including land use right, buildings, machinery and equipment and business vehicles. Except for the lease period of land use right of 50 years, remaining rental contracts are typically made for periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.

B. The lease period of certain dormitories is less than 12 months.

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

	December 31, 2019	For the year ended December 31, 2019
	Book value	Depreciation expense
Land	$ 79,361	$ 2,075
Buildings	60,702	35,649
Transportation equipment (Business vehicles)	3,305	789
Machinery and equipment	1,137	300
	$ 144,505	$ 38,813

D. For the year ended December 31, 2019, the additions to right-of-use assets was $78,073.

E. Information on profit or loss in relation to lease contracts is as follows:

Items affecting profit or loss	For the year ended December 31, 2019
Interest expense on lease liabilities	$ 2,696
Expense on short-term lease contracts	31,324

F. For the year ended December 31, 2019, the Group's total cash outflow for leases was $70,456.

(11) Other non-current assets

	December 31, 2019	December 31, 2018
Prepayments for business facilities	$ 145,802	$ 84,453
Computer software cost	77,300	86,271
Guarantee deposits paid	18,119	19,893
Land use right	-	84,514
Others	7,211	8,825
	$ 248,432	$ 283,956

The Group entered into land use rights contracts with the government of People's Republic of China, and recognised rental expenses of $2,116 for the year ended December 31, 2018. Abovementioned land use right was reclassified to right-of-use assets starting from January 1, 2019. The lease period is 50 years.

(12) Short-term borrowings

Type of borrowings	December 31, 2019	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	$ 16,898	2.6956%	None
Secured borrowings	240,260	3.1506%~3.2374%	Note
	$ 257,158		

Type of borrowings	December 31, 2018	Interest rate range	Collateral
Bank borrowings			
Unsecured borrowings	$ 437,331	1.04%~3.59%	None
Secured borrowings	245,538	3.6863%~3.8646%	Note
	$ 682,869		

Note: The Company is the guarantor without collateral for the secured borrowings of a subsidiary. Information in relation to the interest expense recognised in profit or loss for the years ended December 31, 2019 and 2018 is provided in Note 6(23).

(13) Other payables (including related parties)

	December 31, 2019	December 31, 2018
Bonus and salary payable	$ 189,921	$ 130,724
Processing fees payable	179,069	119,738
Payable for equipment	88,242	29,652
Payable for service fees	75,066	44,897
Payables for freight and warehouse charge	38,029	37,431
Payables for miscellaneous purchases	28,588	31,738
Other payables	146,954	115,761
	$ 745,869	$ 509,941

(14) Bonds payable

	December 31, 2019	December 31, 2018
Bonds payable	$ 251,200	$ 26,800
Less: Discount on bonds payable	(15,983)	(125)
	235,217	26,675
Less: Current portion (shown as"long-term liabilities, current portion")	-	(26,675)
Bonds payable - non-current	$ 235,217	$ -

A. The terms of the second domestic secured convertible bonds are as follows:
The Company issued $300,000, 0%, second domestic secured convertible bonds as approved by the regulatory authority. The bonds mature three years from the issue date (May 17, 2016 ~May 17, 2019). The bonds were listed on the Taipei Exchange on May 17, 2016, and were all converted to common stocks due to maturity in May 2019.

B. The terms of the third domestic unsecured convertible bonds are as follows:

(a) The Company issued $600,000, 0%, third domestic unsecured convertible bonds as approved by the regulatory authority. The bonds mature five years from the issue date (May 29, 2019 ~May 29, 2024). The bonds were listed on the Taipei Exchange on May 29, 2019.

(b) The conversion price of the bonds is set up based on the pricing model. As of December 31, 2019, the bonds payable totaling $348,800 had been converted into 2,622,489 shares of common stock, of which 1,342,081 shares were recognised as 'Certificates of bond-to-stock conversion'. If a violation of anti-dilution provision occurred, the conversion price would be subsequently adjusted in accordance with the pricing model as specified in the terms of conversion. The conversion price was $133 (in dollars) per share upon issuance.

(c) The bondholders have the right to require the Company to redeem any bonds at the price of the bonds' face value plus 2.27% of the face value as interest upon three years from the issuance date.

(d) The Company may repurchase all the bonds outstanding in cash at the bonds' face value at any time after the following events occur: (i) the closing price of the Company's common shares is above the then conversion price by 30% for 30 consecutive trading days during the period from the date after three months of the bonds issue to 40 days before the maturity date, or (ii) the outstanding balance of the bonds is less than 10% of total initial issue amount during the period from the date after three months of the bonds issue to 40 days before the maturity date.

(e) Under the terms of the bonds, all bonds redeemed (including bonds repurchased from the Taipei Exchange), matured and converted are retired and not to be re-issued; all rights and obligations attached to the bonds are also extinguished.

C. Regarding the issuance of the third domestic unsecured convertible bonds, the equity conversion options amounting to $31,340 were separated from the liability component and were recognised in 'capital surplus—share options' in accordance with IAS 32. The call options and put options embedded in bonds payable were separated from their host contracts and were recognised in 'financial assets or liabilities at fair value through profit or loss' in net amount in accordance with IAS 39 because the economic characteristics and risks of the embedded derivatives were not closely related to those of the host contracts. The effective interest rate of the bonds payable after such separation was 1.4912%.

(15) Pensions

Defined contribution plans

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

B. The Group's mainland subsidiaries have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC.) are based on certain percentage of employees' monthly salaries and wages. The contribution percentage for the years ended December 31, 2019 and 2018 was 18% ~ 20%. Other than the monthly contributions, the Group has no further obligations.

C. The pension costs under the defined contribution pension plans of the Group for the years ended December 31, 2019 and 2018 were $55,425 and $37,986, respectively.

(16) Share-based payment

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

Type of arrangement	Grant date	Quantity granted (thousands)	Contract period (years)	Vesting conditions
Employee stock options	January 2, 2014	490	5	Note
Employee stock options	August 26, 2014	1,430	5	Note
Employee stock options	December 29, 2014	482	5	Note
Treasury shares reissued to employees	November 15, 2018	734	-	Immediately
Treasury shares reissued to employees	December 6, 2018	1,658	-	Immediately

Note: According to the employees' continuance in office (1 to 4 years), the employees can exercise their employee stock options in batch at the ratio of 50%, 25% and 25%.

B. Employee stock options are evaluated using the Binomial lattice model. Relevant information is as follows:

Grant date	Stock price (dollars)	Exercise price (dollars)	Expected price volatility	Expected option life	Expected dividend yield	Risk-free interest rate (%)	Fair value per unit (dollars)
January 2, 2014	$ 22.10	$ 20.20	38.67%	January 3, 2014~ January 2, 2019	5.3050%	1.14%	$4.58~4.97
August 26, 2014	20.80	18.90	35.18%	August 27, 2014~ August 26, 2019	1.9560%	1.15%	5.04~5.19
December 29, 2014	18.70	17.00	41.64%	December 30, 2014 ~December 29, 2019	1.9560%	1.0952%	5.44~5.57

C. The details of the employee stock option plan for the years ended December 31, 2019 and 2018 are as follows:

Stock options	2019 Quantity (in thousand units)	Weighted average exercise price (in dollars)	Range of exercise price (in dollars)	Weighted average remaining vesting year	Weighted average stock price of stock options at exercise date (in dollars)
Outstanding options at the beginning of the year	188	$ 17.75	$17.0~20.2		$ 71.50
Options exercised	(188)	-			
Outstanding options at the end of the year	-	-	-	0 year	163.16
Exercisable options at the end of the year	-				

Stock options	2018 Quantity (in thousand units)	Weighted average exercise price (in dollars)	Range of exercise price (in dollars)	Weighted average remaining vesting year	Weighted average stock price of stock options at exercise date (in dollars)
Outstanding options at the beginning of the year	871	$ 19.23	$17.5~20.8		$ 84.32
Options granted	(22)	-			
Options forfeited	(661)	-			
Outstanding options at the end of the year	188	17.75	17.0~20.2	0 year~ 1 year	71.50
Exercisable options at the end of the year	188				

D. For the years ended December 31, 2019 and 2018, the Company issued 188 thousand and 661 thousand shares of ordinary shares relative to the exercise of employee share options in accordance with the employee share options plan, respectively. As of December 31, 2019 and 2018, there are 10 thousand and 50 thousand shares which have not yet completed the registration, and were accounted as advance receipts for share capital amounting to $100 and $500, respectively.

E. For the years ended December 31, 2019 and 2018, the Group recognised expenses on share-based payment transaction (equity settlement) and the cost of treasury shares reissued as employees' compensation was $0 and $5,085, respectively.

(17) Share capital

A. As of December 31, 2019, the Company's authorised capital was $1,200,000, and the paid-in capital was $850,977, consisting of 85,097,748 shares, with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares (including advance receipts for share capital and certificates of bond-to-stock conversion) outstanding are as follows:

	2019	2018
	Ordinary shares	Ordinary shares
At January 1	80,751,054	79,058,285
Employee stock options exercised	188,000	661,000
Conversion of convertible bonds	3,118,775	1,765,769
Acquisition of treasury shares	-	(734,000)
Treasury shares transferred to employees	800,000	-
At December 31	84,857,829	80,751,054

B. Treasury shares

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Name of company holding the shares	Reason for reacquisition	December 31, 2019 Number of shares	December 31, 2019 Carrying amount
The Company	To be reissued to employees	1,592	$ 120,073

Name of company holding the shares	Reason for reacquisition	December 31, 2018 Number of shares	December 31, 2018 Carrying amount
The Company	To be reissued to employees	2,392	$ 185,473

(b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.

(c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within five years from the reacquisition date and shares not reissued within the five-year period are to be retired.

(18) Capital surplus

	2019				
	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Employee stock options	Stock warrants	Total
At January 1	$654,122	$ 4,050	$ 25,145	$ 3,603	$ 686,920
Issue of convertible bonds	-	-	-	31,340	31,340
Conversion of corporate bonds payable	338,927	-	-	(19,181)	319,746
Employee stock options exercised	2,711	-	(1,255)	-	1,456
Treasury stock transferred to employees	-	-	(1,288)	-	(1,288)
At December 31	$995,760	$ 4,050	$ 22,602	$15,762	$1,038,174

	2018				
	Share premium	Difference between consideration and carrying amount of subsidiaries acquired or disposed	Employee stock options	Stock warrants	Total
At January 1	$562,936	$ 4,050	$ 23,205	$ 7,120	$ 597,311
Conversion of corporate bonds payable	82,028	-	-	(3,517)	78,511
Employee stock options exercised	9,158	-	(3,145)	-	6,013
Compensation cost of share-based payments	-	-	5,085	-	5,085
At December 31	$654,122	$ 4,050	$ 25,145	$ 3,603	$ 686,920

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

(19) Retained earnings

A. If the Company has any profit for the current year, it shall first be used to pay all taxes and offset prior year's operating losses, then 10% of the remaining amount shall be set aside as legal reserve until the legal reserve equals the total capital stock balance. In accordance with the regulations, the Company shall set aside or reverse special reserve. The remaining amount plus prior year's unappropriated earnings is the distributable retained earnings which can be distributed through the proposal of the Board of Directors and resolved by the shareholders.

B. The dividend policies of the Group are established by the Board of Directors based on the Group’s operating plan, investment schedule, capital budget and internal and external environment, etc. Retained earnings can be distributed in form of cash or shares and cash dividends shall not be lower than 10% of total dividends distributed.

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

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

E. The appropriations of earnings for the years ended December 31, 2018 and 2017 resolved by the shareholders during their meeting in June 2019 and 2018, respectively, are as follows:

	For the years ended December 31,			
	2018		2017	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 23,299		$ 29,015	
Special reserve	11,222		-	
Cash dividends	125,226	$ 1.50	162,661	$ 2.00
	$ 159,747		$ 191,676	

Note: Changes in the number of outstanding shares were affected by the exercise of employee share options, the conversion from convertible bonds to common shares, and capital increase by cash. Due to the resolution adopted by the Board of Directors, the Group adjusted the shareholder yield based on the actual number of outstanding shares.

F. On March 17, 2020, the Board of Directors proposed for the distribution of dividends from 2019 earnings in the amount of $432,727 at $5 (in dollars) per share.

G. For the information relating to employees' compensation (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(24).

(20) Operating revenue

	For the years ended December 31,	
	2019	2018
Revenue from contracts with customers	$ 10,247,561	$ 7,654,265

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time. For information on the operating revenue by geographical regions, please refer to Note 14(3).

(21) Other income

	For the years ended December 31,	
	2019	2018
Sample revenue	$ 78,700	$ 52,181
Government grant revenues	10,561	11,807
Rent income	6,806	55,913
Mold income	3,749	16,718
Others	6,390	11,453
	$ 106,206	$ 148,072

(22) Other gains and losses

	For the years ended December 31,	
	2019	2018
(Losses) gains on foreign currency exchange	($ 16,933)	$ 25,467
Losses on disposal of property, plant and equipment	(6,235)	(6,298)
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	10,243	(24)
Other losses	(877)	(3,902)
	($ 13,802)	$ 15,243

(23) Finance costs

	For the years ended December 31,	
	2019	2018
Interest expense:		
Bank borrowings	$ 13,051	$ 10,604
Convertible bonds	4,423	682
Accounts receivable factoring expenses	8,730	9,952
Interest expense on lease liabilities	2,696	-
Finance costs	$ 28,900	$ 21,238

(24) Employee benefit expense, depreciation and amortisation

	For the years ended December 31,	
	2019	2018
Employee benefit expense		
Wages and salaries	$ 1,496,262	$ 1,148,811
Labour and health insurance fees	45,339	32,865
Pension costs	55,425	37,986
Other personnel expenses	82,902	69,962
	$ 1,679,928	$ 1,289,624
Depreciation	$ 253,647	$ 138,706
Amortisation	$ 23,230	$ 21,670

A. A ratio of profit of the current year distributable (profit before tax, employees' compensation and directors' and supervisors' remuneration), shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 3%~15% for employees' compensation and shall not be higher than 1.5% for directors' and supervisors' remuneration. The appropriation for employees' compensation and directors' and supervisors' remuneration should be reported to shareholders during their meeting.

   If the Company has accumulated deficit, earnings should be reserved to cover losses and then be appropriated as employees' compensation and directors' and supervisors' remuneration based on the abovementioned ratios.

B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at $41,153 and $10,155, respectively; while directors' and supervisors' remuneration was accrued at $9,406 and $2,321, respectively. The aforementioned amounts were recognised as expenses.

   The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 3.5% and 0.8% of profit of current year distributable as of the end of reporting period.

   Employees' compensation and directors' and supervisors' remuneration for 2018 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2018 financial statements. The aforementioned amounts will be distributed in the form of cash.

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

(25) Income tax

A. Components of income tax expense:

	For the years ended December 31,	
	2019	2018
Current tax:		
Current tax on profits for the year	$ 247,433	$ 44,951
Tax on undistributed surplus earnings	3,662	9,847
Prior year income tax underestimation	1,993	4,743
Total current tax	$ 253,088	$ 59,541
Deferred tax:		
Origination and reversal of temporary differences	(8,991)	4,285
Impact of change in tax rate	-	(1,029)
Income tax expense	$ 244,097	$ 62,797

B. Reconciliation between income tax expense and accounting profit:

	For the years ended December 31,	
	2019	2018
Income tax calculated by applying statutory rate to the profit before tax	$ 301,345	$ 71,084
Effect from permanent differences of income tax	(62,903)	(21,848)
Impact of change in tax rate	-	(1,029)
Additional tax on undistributed surplus earnings	3,662	9,847
Prior year income tax underestimation	1,993	4,743
Income tax expense	$ 244,097	$ 62,797

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

	2019				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Deferred tax assets:					
Unused compensated absences	$ 1,005	($ 40)	$ -	$ -	$ 965
Unrealised exchange loss	680	6,666	-	-	7,346
Others	891	2,365	-	-	3,256
	$ 2,576	$ 8,991	$ -	$ -	$ 11,567

	2018				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Deferred tax assets:					
Unused compensated absences	$ 497	$ 508	$ -	$ -	$ 1,005
Impairment loss on assets	1,309	(1,309)	-	-	-
Unrealised exchange loss	1,886	(1,206)	-	-	680
Others	2,140	(1,249)	-	-	891
	$ 5,832	($ 3,256)	$ -	$ -	$ 2,576

D. Expiration dates of unused tax losses and amounts of unrecognised deferred tax assets are as follows:

December 31, 2019				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	$ 6,693	$ 6,693	$ 6,693	2026
2018	305	305	305	2028
2019	199	199	199	2029
	$ 7,197	$ 7,197	$ 7,197	

December 31, 2018				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	$ 6,693	$ 6,693	$ 6,693	2026
2018	305	305	305	2028
	$ 6,998	$ 6,998	$ 6,998	

E. The amounts of deductible temporary differences that were not recognised as deferred tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018
Deductible temporary difference-Assets	$ 12,521	$ 5,073
Taxable temporary differences-Liabilities	($ 829,379)	($ 569,426)

The above deductible temporary difference is a temporary difference between the carrying amount and taxable amount of long-term equity investments in overseas subsidiaries. Since the Company will neither dispose these subsidiaries nor remit the earnings in foreseeable future, no deferred tax assets and liabilities was recognised. In addition, the temporary difference arising from certain overseas subsidiaries will not be reversed in foreseeable future.

F. The applicable income tax rate of the Company's indirectly invested Mainland China subsidiaries, Auras Technology (Kunshan) Co., Ltd. and Ze Hong (Guangzhou) Technology Co., Ltd., is 15%~25%.

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

H. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% and the undistributed surplus earnings rate was reduced from 10% to 5%, effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(26) Earnings per share

	For the year ended December 31, 2019		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 963,971	82,354	$ 11.71
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 963,971	82,354	
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	62	
Employees' compensation	-	205	
Convertible bonds	4,423	2,388	
Shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 968,394	85,009	$ 11.39

	For the year ended December 31, 2018		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
Basic earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 232,987	80,312	$ 2.90
Diluted earnings per share			
Profit attributable to ordinary shareholders of the parent	$ 232,987	80,312	
Assumed conversion of all dilutive potential ordinary shares			
Employee stock options	-	359	
Employees' compensation	-	229	
Convertible bonds	545	921	
Shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	$ 233,532	81,821	$ 2.85

(27) Supplemental cash flow information

Investing activities with partial cash payments

	For the years ended December 31,	
	2019	2018
Purchase of property, plant and equipment	$ 670,906	$ 186,824
Add: Opening balance of payable on equipment	29,652	2,130
Less: Ending balance of payable on equipment	(88,242)	(29,652)
Cash paid during the year	$ 612,316	$ 159,302

(28) Change in liabilities from financing activities

For the years ended December 31, 2019 and 2018, liabilities from financing activities include short-term borrowings, short-term notes and bills payable as well as bonds payable. Changes in those items result from cash flows from financing activities, discount amortisation, bonds converted to common stocks and changes in exchange rate. The summarised amounts are as follows and other information is provided in the consolidated statements of cash flows.

	2019	2018
At January 1	$ 759,544	$ 367,640
Changes in cash flows from financing activities	133,609	492,706
Changes in other non-cash items	(391,458)	(95,965)
Impact of changes in foreign exchange rate	(9,320)	(4,837)
At December 31	$ 492,375	$ 759,544

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Group
ZONG HONG (KUNSHAN) CO., LTD.	Associate
JCD OPTICAL (CAYMAN) CO., LTD.	Associate
JCD OPTICAL CO., LTD.	Associate
JCD (GUANGZHOU) OPTICAL CORPORATION	Associate
JCD OPTICAL INTERNATIONAL CO., LTD. (Taiwan Branch)	Associate

(2) Significant related party transactions

A. Purchases

	For the years ended December 31,	
	2019	2018
Purchases of goods:		
Associates	$ 31,975	$ 74,126

Purchases from related enterprises are based on normal commercial terms and conditions.

B. Other income

	For the years ended December 31,	
	2019	2018
Rent income:		
JCD (Guangzhou)	$ 6,325	$ 11,514
Associates	-	42
Other income:		
Associates	1,161	1,385
	$ 7,486	$ 12,941

The Group leased plant to related parties. The price was based on mutual agreement, and the rent is payable monthly.

C. Other receivables from related parties:

	December 31, 2019	December 31, 2018
Other receivables:		
Associates	$ 3,167	$ 4,481

D. Payables to related parties

	December 31, 2019	December 31, 2018
Accounts payable:		
Associates	$ 8,690	$ 19,512

The payables to related parties arise mainly from purchase transactions, and the credit term was 3 to 4 months which is the same with general suppliers.

(3) Key management compensation

	For the years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	$ 13,499	$ 14,039

8. PLEDGED ASSETS

The Group's assets pledged as collateral, mortgaged or restricted are as follows:

	Book value		
Pledged asset	December 31, 2019	December 31, 2018	Purpose
Other current assets - time deposits	$ 7,509	$ 1,513	Customs guarantee and foreign tax guarantee

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

None.

(2) Commitments

A. Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ 432,885	$ 195,626

B. Operating lease agreements

The Group leases plant and office under operating lease agreements. Most of the lease agreements can be renewed at the end of the lease period based on market price.

The future aggregate minimum lease payments under the operating leases are as follows:

	December 31, 2018
Not later than one year	$ 17,152
Later than one year but not later than five years	11,657
Over five years	-
	$ 28,809

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The appropriation of earnings for 2019 had been proposed and resolved by the Board of Directors on March 17, 2020. Details are provided in Note 6(19).

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust accounts receivable factoring, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

(2) Financial instruments

A. Financial instruments by category

	December 31, 2019	December 31, 2018
Financial assets		
Financial assets at fair value through profit or loss	$ 1,909	$ 11
Financial assets at fair value through other comprehensive income		
Designation of equity instruments	11,484	10,740
Accounts receivable to be factored	853,654	326,784
Financial assets at amortised cost	3,198,267	2,634,076
	$ 4,065,314	$ 2,971,611
Financial liabilities		
Financial liabilities at amortised cost	$ 3,736,165	$ 3,431,798
Lease liability	65,411	-
	$ 3,801,576	$ 3,431,798

Note: Financial assets at amortised cost include cash, accounts and notes receivable that are not measured at fair value through other comprehensive income and other receivables; financial liabilities at amortised cost include short-term borrowings, short-term notes and bills payable, accounts and notes payable, other payables and bonds payable (including current portion).

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's financial policy tends toward conservatism principle, therefore the Group does not operate the high-risk and complex derivative financial instruments.

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

i. The Group operates internationally and is exposed to foreign exchange risk arising from different functional currency used by the Company and its subsidiaries, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The Group's purchases and sales were calculated by USD, the fair value will be changed along with the market exchange. However, the Group offset the foreign exchange risk through holding assets and liabilities denominated in foreign currencies, collection period and payment period.

iii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

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

	December 31, 2019				
				Sensitivity analysis	
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	$ 100,401	29.98	$ 3,010,022	1%	$ 30,100
USD:RMB	70,879	6.9762	2,124,952	1%	21,250
Non-monetary items					
Foreign operations					
USD:NTD	$ 3,280	29.98	$ 98,334		
RMB:NTD	448,726	4.305	1,931,765		
Financial liabilities					
Monetary items					
USD:NTD	$ 62,991	29.98	$ 1,888,470	1%	$ 18,885
USD:RMB	50,103	6.9762	1,502,088	1%	15,021

	December 31, 2018				
				Sensitivity analysis	
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss
(Foreign currency: functional currency)					
Financial assets					
Monetary items					
USD:NTD	$ 80,534	30.715	$ 2,473,602	1%	$ 24,736
USD:RMB	60,153	6.8632	1,847,599	1%	18,476
Non-monetary items					
Foreign operations					
USD:NTD	$ 4,269	30.715	$ 131,122		
RMB:NTD	339,285	4.472	1,517,283		
Financial liabilities					
Monetary items					
USD:NTD	$ 59,816	30.715	$ 1,837,248	1%	$ 18,372
USD:RMB	38,987	6.8632	1,197,486	1%	11,975

v. For the years ended December 31, 2019 and 2018, the total amount of exchange (loss) gain were ($16,933) and $25,467 (including realised and unrealised), arising from significant foreign exchange variation on the monetary items held by the Group, respectively.

Price risk

The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Cash flow and fair value interest rate risk

i. The Group's interest rate risk arises from short-term borrowings and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. During the years ended December 31, 2019 and 2018, the Group's borrowings at variable rate were denominated in the NTD and USD.

ii. At December 31, 2019 and 2018, if interest rates on USD-denominated and NTD-denominated borrowings had been 0.1% higher/lower with all other variables held constant, there will be no significant impact on post-tax profit for the years ended December 31, 2019 and 2018.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.

ii. The Group's receivables mostly are computer companies which have good credit records and well-known worldwide. They have no critical bad debts recently, and the Group assesses the adequacy of allowance for bad debts regularly. There is no significant credit risk through assessment.

iii. Other accounts receivable mainly arise from the retention of accounts receivable factoring and unadvanced proceeds. The counterparties are financial institutions with high credit quality.

iv. If the contract payments are past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition. If the contract payments are past due over 90 days based on the terms, the default occurs.

v. The Group applies the following approaches to assess the expected credit losses (ECLs) of accounts receivable:

(i) Assess the ECLs on an individual basis if a significant default has occurred to certain customers.

(ii) The remaining receivables are grouped in accordance with the Group's credit ratings of its customers. Different loss rates are applied to the different groups when estimating expected credit losses;

(iii) Loss rates, calculated from historical and current information, are adjusted according to forward-looking information such as the business indicators published by the National Development Council and Basel Committee on Banking Supervision.

(iv) As of December 31, 2019 and 2018, loss allowances of accounts receivable and notes receivable calculated from individual assessment or using the loss rate methodology are as follows:

December 31, 2019	Individual	Group A	Group B	Group C	Total
Expected loss rate	100.00%	0.03%	0.07%	0.20%	
Total book value	$ 4,940	$ 2,842,525	$ 633,063	$ 70,703	$ 3,551,231
Loss allowance	$ 4,940	$ 853	$ 443	$ 142	$ 6,378

December 31, 2018	Individual	Group A	Group B	Group C	Total
Expected loss rate	100.00%	0.03%	0.07%	0.20%	
Total book value	$ 5,062	$ 2,079,705	$ 338,054	$ 32,449	$ 2,455,270
Loss allowance	$ 5,062	$ -	$ -	$ -	$ 5,062

Group A: Rated as grade A based on the Group's Credit Quality Control Policy.

Group B: Rated as grade B or C based on the Group's Credit Quality Control Policy.

Group C: Rated as grade CC based on the Group's Credit Quality Control Policy.

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

	2019
	Accounts receivable
At January 1	$ 5,062
Provision for impairment	1,453
Effect of exchange rate changes	(137)
As of December 31	$ 6,378

	2018
	Accounts receivable
At January 1_IAS 39	$ 4,904
Adjustments under new standards	-
At January 1_IFRS 9	4,904
Effect of exchange rate changes	158
As of December 31	$ 5,062

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.

ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.

iii. The table below analyses the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities.

Except for the following, maturity dates of the Group's non-derivative financial liabilities (including short-term borrowings, accounts payable (including related parties), other payables and bonds payable) are lower than 360 days as of December 31, 2019 and 2018.

	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Total
Non-derivative financial liabilities				
Lease liability	$ 35,463	$ 32,695	$ 243	$ 68,401
Bonds payable	-	-	235,217	235,217
	$ 35,463	$ 32,695	$ 235,460	$ 303,618

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in derivative instruments is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, notes and accounts receivable that are not measured at fair value through other comprehensive income, other receivables, short-term borrowings, notes payable, accounts payable, other payables and bonds payable) are approximate to their fair values.

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

December 31, 2019	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
- Derivative instruments	$ -	$ 1,909	$ -	$ 1,909
Financial assets at fair value through other comprehensive income				
- Equity securities	-	-	11,484	11,484
- Accounts receivable to be factored	-	853,654	-	853,654
	$ -	$ 855,563	$ 11,484	$ 867,047

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Financial assets at fair value through profit or loss				
- Derivative instruments	$ -	$ 11	$ -	$ 11
Financial assets at fair value through other comprehensive income				
- Equity securities	-	-	10,740	10,740
- Accounts receivable to be factored	-	326,784	-	326,784
	$ -	$ 326,795	$ 10,740	$ 337,535

D. The methods and assumptions the Group used to measure fair value are as follows:

The valuation of derivative financial instruments is based on valuation model widely accepted by market participants, such as present value techniques and option pricing models. Forward exchange contracts are usually valued based on the current forward exchange rate. Structured interest derivative instruments are measured by using appropriate option pricing models (i.e. Black-Scholes model) or other valuation methods, such as Monte Carlo simulation.

E. For the years ended December 31, 2019 and 2018, there was no transfer between Level 1 and Level 2.

F. For the years ended December 31, 2019 and 2018, there was no transfer into or out from Level 3.

G. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value Decemebr 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 11,484	Discounted cash flow	Long-term revenue growth rate	3%	The higher the long-term revenue growth rate and long-term pre-tax operating margin, the higher the fair value

	Fair value Decemebr 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	$ 10,740	Discounted cash flow	Long-term revenue growth rate	3%	The higher the long-term revenue growth rate and long-term pre-tax operating margin, the higher the fair value

H. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

Financial assets	Contract period	Input	Change	Recognised in other comprehensive income	
				Favourable change	Unfavourable change
Equity instruments	December 31, 2019	$ 11,484	±1%	$ 115	($ 115)

Financial assets	Contract period	Input	Change	Recognised in other comprehensive income	
				Favourable change	Unfavourable change
Equity instruments	December 31, 2018	$ 10,740	±1%	$ 107	($ 107)

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

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

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

C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.

D. Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company’s paid-in capital: None.

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

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

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

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

I. Derivative financial instrument transactions: Please refer to Notes 6(2) and 12.

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

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 6.

14. SEGMENT INFORMATION

(1) General information

The Group is primarily engaged in the manufacture, processing and sale of thermal module. The operating decision maker operates business in line with different appliances of thermal module, which is distinguished as computer and non-computer thermal module. The segments of computer thermal module and non-computer thermal module have been aggregated into one reportable segment as they have similar average gross margins and similar expected cost rates and meet the condition of aggregation.

(2) Information on products and services

Revenue from external customers is mainly from the sales of abovementioned reportable segments. Reportable segments shall use products to be the standards of revenue recognition, therefore products revenue is the reportable segment revenue.

(3) Geographical information

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

	For the years ended December 31,			
	2019		2018	
	Revenue	Non-current assets	Revenue	Non-current assets
China	$ 4,716,349	$ 1,769,057	$ 4,114,846	$ 1,207,082
Taiwan	2,747,158	122,465	2,031,947	106,369
Korea	1,428,848	-	516,982	-
Ireland	656,516	-	454,153	-
Others	698,690	9	536,337	9
	$ 10,247,561	$ 1,891,531	$ 7,654,265	$ 1,313,460

(4) Major customer information

Major customer information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	For the years ended December 31,				
	2019			2018	
	Revenue			Revenue	
	Amount	%		Amount	%
a	$ 1,518,064	14.81%	A	$ 1,240,235	16.20%
b	1,421,983	13.88%	B	1,181,656	15.44%
c	1,338,894	13.07%	C	604,959	7.90%
d	822,041	8.02%	D	557,354	7.28%
e	782,967	7.64%	E	544,941	7.12%
	$ 5,883,949			$ 4,129,145	