Stock Code:6668

ZHONG YANG TECHNOLOGY CO., LTD.

PARENT COMPANY ONLY FINANCIAL STATEMENTS

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

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

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Independent Auditors' Report

To the Board of Directors of Zhong Yang Technology Co., LTD.:

Opinion

We have audited the financial statements of Zhong Yang Technology Co., LTD.("the Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

1. Operating Revenues - Revenue recognition of external warehouse

   Please refer to note 4(m) for accounting policy related of revenue.

   Information of revenue from contracts with customers is disclosed in note 6(q).

Description of key audit matter:

The Company is principally engaged in the manufacture, research and development and sales of mobile phone lens molds. The business involves a high degree of customization, and the molds need to sent to the customers' factories for testing and be modified with the customers' new product development. The sales revenue will be recognized after the development of mobile phone lens and the acceptance of the molds by customers. As it involves judging the timing of the transfer of products, and the sales revenue has a significant impact on the overall financial statements. Therefore, testing over the sales revenue from the external warehouses is one of the most significant assessments in our audit procedures this year.

Audit Procedures:

Our principal audit procedure included: assessing the appropriateness of the policy of recognition of sales revenue; evaluating and testing the related controls surrounding the aforementioned sales and collection cycle and the effectiveness of implementations; selecting and conducting external confirmations with warehouses or observing the inventory count directly; testing of details; as well as selecting transactions which happen during a period of time before and after the reporting date in order to test whether the sales revenue is recognized within the correct period and to evaluate the accuracy of the sales revenue recognition.

2. Investment accounted for using equity method - subsidiary - sales revenue of external warehouse

   Please refers to note 4(h) for accounting policy related to investment accounted for using equity method. Please refers to note 6(e) for details of investment accounted for using equity method.

   The Company's subsidiary JMO is mainly engaged in the manufacture, research and development, and sales of optical molds. The business involves a high degree of customization, and the molds need to send to the customers' factory for testing, and be modified with the customers' new product development. The sales revenue will be recognized after the development of mobile phone lens and the acceptance of the molds by customers.

   On the combined statement angle, the income of the subsidiary is significant, which involves judging the timing of the transfer of products, and the sales revenue has a significant impact on the overall consolidated financial statements. Therefore, testing over the sales revenue from the external warehouse is one of the most significant assessments in our audit procedures this year.

   Audit procedures:

   Our principle audit procedure included: assessing the appropriateness of the policy of recognition of sales revenue of JMO; evaluating and testing the related controls surrounding the aforementioned sales and collection cycle and the effectiveness of implementations; selecting and conducting external confirmations with warehouse or observing the inventory count directly; testing of details; as well as selecting transactions which happen during a period of time before and after the reporting date in order to test whether the sales revenue is recognized within the correct period, and to evaluate the accuracy of the sales revenue recognition by JMO.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of 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 Company' s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Company 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 within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit.

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are I-Wen Wang and Hsing Fu Yen.

KPMG

Taipei, Taiwan (Republic of China)
March 23, 2020

Notes to Readers

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

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

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD.

Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 608,574	19	225,572	9
1170	Notes and accounts receivable, net (notes 6(b) and (q))	141,915	4	186,857	8
1180	Accounts receivable, due from related parties (notes 6(b), (q) and 7)	242,866	8	159,309	7
1200	Other receivables (note 6(c))	7,268	-	228	-
1210	Other receivables due from related parties (note 6(c) and 7)	87,261	3	132,336	6
1310	Inventories (note 6(d))	144,917	5	165,123	7
1410	Prepayments and other current assets	16,702	-	10,708	-
		1,249,503	39	880,133	37
	Non-current assets:				
1550	Investments accounted for using equity method (note 6(e))	659,812	21	429,387	18
1600	Property, plant and equipment (notes 6(f) and 8)	1,040,050	33	983,978	41
1755	Right-of-use assets (note 6(g))	58,325	2	-	-
1780	Intangible assets	9,460	-	7,394	-
1840	Deferred tax assets (note 6(m))	41,365	1	26,765	1
1900	Other non-current assets (note 8)	107,556	4	80,135	3
		1,916,568	61	1,527,659	63
	Total assets	$ 3,166,071	100	2,407,792	100

		December 31, 2019		December 31, 2018	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2100	Short-term borrowings (note 6(h))	$ 510,000	16	226,000	9
2130	Current contract liabilities (note 6(q) and 7)	19,419	1	6,100	-
2170	Notes and accounts payable	16,130	-	10,331	1
2180	Accounts payable due from related parties (note 7)	20,416	1	70,528	3
2200	Other payables (note 7)	115,110	4	120,277	5
2230	Current tax liabilities	6,255	-	14,482	1
2280	Current lease liabilities (note 6(j))	5,126	-	-	-
2300	Other current liabilities	7,177	-	2,877	-
2320	Long-term borrowings, current portion (note 6(i))	75,000	2	7,560	-
		774,633	24	458,155	19
	Non-Current liabilities:				
2540	Long-term borrowings (note 6(i))	78,930	2	142,440	6
2570	Deferred tax liabilities (note 6(m))	24,861	1	25,996	1
2580	Non-current lease liabilities (note 6(j))	53,265	2	-	-
2600	Other non-current liabilities (note 6(s))	404,000	13	-	-
		561,056	18	168,436	7
	Total liabilities	1,335,689	42	626,591	26
	Equity (note 6(n)):				
3110	Ordinary shares	683,923	21	684,365	28
3200	Capital surplus	820,356	26	808,259	34
3310	Legal reserve	53,573	2	39,565	2
3320	Special reserve	17,196	-	9,715	-
3350	Unappropriated retained earnings	301,051	10	271,872	11
3490	Other equity	(45,717)	(1)	(32,575)	(1)
	Total equity	1,830,382	58	1,781,201	74
	Total liabilities and equity	$ 3,166,071	100	2,407,792	100

See accompanying notes to financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD.

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)

		2019		2018	
		Amount	%	Amount	%
4100	**Operating revenues (notes 6 (q) and 7)**	$ 890,148	100	856,984	100
5000	**Operating costs (notes 6(d), 7 and 12)**	652,380	73	574,542	67
	Gross profit from operations	237,768	27	282,442	33
5910	Less: Unrealized profit (loss) from sales	4,510	1	(43,254)	(5)
5900	**Gross profit from operations**	233,258	26	325,696	38
	Operating expenses: (notes 6(b), 7 and 12)				
6100	Selling expenses	29,433	3	11,817	1
6200	Administrative expenses	90,177	10	100,260	12
6300	Research and development expenses	131,841	15	78,191	9
6450	Impairment loss (impairment gain and reversal of impairment loss)	(1,728)	-	7,526	1
		249,723	28	197,794	23
6900	**Net operating income**	(16,465)	(2)	127,902	15
	Non-operating income and expenses:				
7100	Interest revenue (note 7)	6,931	1	7,195	1
7230	Foreign exchange gains (losses), net (note 6(t))	(16,806)	(2)	15,385	2
7375	Share of profit of subsidiaries associates and joint ventures accounted for using equity method	144,759	16	32,181	3
7050	Interest expense (note 6 (j))	(7,674)	(1)	(6,346)	(1)
7590	Other gains (losses), net (note 7)	3,385	-	868	-
		130,595	14	49,283	5
7900	**Profit before tax**	114,130	12	177,185	20
7950	Less: income tax expenses (note 6(m))	(4,955)	(1)	37,106	4
8200	**Profit**	119,085	13	140,079	16
8300	**Other comprehensive income:**				
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation	(26,459)	(3)	(9,790)	(1)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(m))	(5,292)	(1)	(2,309)	-
		(21,167)	(2)	(7,481)	(1)
8300	**Other comprehensive income**	(21,167)	(2)	(7,481)	(1)
8500	**Comprehensive income**	**$ 97,918**	**11**	**132,598**	**15**
	Earnings per common share (note 6 (p))				
9750	**Basic earnings per share (NT dollars)**	**$**	**1.75**		**2.30**
9850	**Diluted earnings per share (NT dollars)**	**$**	**1.75**		**2.30**

See accompanying notes to financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings			Other equity		
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unearned employee compensation	Total equity
Balance at January 1, 2018	$ 600,415	387,434	15,286	-	285,870	(9,715)	-	1,279,290
Appropriation and distribution of retained earnings:								
Legal reserve	-	-	24,279	-	(24,279)	-	-	-
Special reserve	-	-	-	9,715	(9,715)	-	-	-
Cash dividend on ordinary shares	-	-	-	-	(120,083)	-	-	(120,083)
	-	-	24,279	9,715	(154,077)	-	-	(120,083)
Profit for the year ended December 31, 2018	-	-	-	-	140,079	-	-	140,079
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	(7,481)	-	(7,481)
Comprehensive income for the year ended December 31, 2018	-	-	-	-	140,079	(7,481)	-	132,598
Capital increased by cash	80,000	381,238	-	-	-	-	-	461,238
Changes in ownership interests in subsidiaries	-	694	-	-	-	-	-	694
Share-based payments transaction	3,950	38,893	-	-	-	-	(15,379)	27,464
Balance at December 31, 2018	684,365	808,259	39,565	9,715	271,872	(17,196)	(15,379)	1,781,201
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	14,008	-	(14,008)	-	-	-
Special reserve appropriated	-	-	-	7,481	(7,481)	-	-	-
Cash dividends of ordinary share	-	-	-	-	(68,417)	-	-	(68,417)
	-	-	14,008	7,481	(89,906)	-	-	(68,417)
Profit for the year ended December 31, 2019	-	-	-	-	119,085	-	-	119,085
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	-	(21,167)	-	(21,167)
Comprehensive income for the year ended December 31, 2019	-	-	-	-	119,085	(21,167)	-	97,918
Changes in ownership interests in subsidiaries	-	11,072	-	-	-	-	-	11,072
Share-based payments transaction	(442)	1,025	-	-	-	-	8,025	8,608
Balance at December 31, 2019	$ 683,923	820,356	53,573	17,196	301,051	(38,363)	(7,354)	1,830,382

See accompanying notes to financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	$ 114,130	177,185
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	105,921	54,343
Amortization expense	3,517	2,470
Expected credit loss (gain)	(1,728)	7,526
Interest expense	7,674	6,346
Interest income	(6,931)	(7,195)
Share-based payment transactions	10,155	13,639
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(144,759)	(32,181)
Unearned gross profits	4,510	(43,254)
Others	(436)	(185)
Total adjustments to reconcile profit (loss)	(22,077)	1,509
Changes in operating assets and liabilities:		
Increase in notes and accounts receivable	(36,887)	(85,903)
Decrease (increase) in other receivables	(7,269)	3,186
Decrease (increase) in inventories	20,206	(71,813)
Increase in prepayments and other current assets	(5,994)	(7,823)
Increase (decrease) in contract liabilities	13,319	(22,977)
Increase (decrease) in notes and accounts payable (including related parties)	(44,313)	44,137
Increase in other payables	19,912	17,276
Increase (decrease) in other current liabilities	4,300	(625)
Total changes in operating assets and liabilities	(36,726)	(124,542)
Total adjustments	(58,803)	(123,033)
Cash inflow (outflow) generated from operations	55,327	54,152
Interest received	7,160	7,027
Interest paid	(7,882)	(6,226)
Income taxes paid	(13,715)	(55,067)
Net cash flows from (used in) operating activities	40,890	(114)
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method	(105,563)	(87,422)
Acquisition of property, plant and equipment	(190,200)	(409,251)
Proceeds from disposal of property, plant and equipment	12,013	5,243
Decrease (increase) in refundable deposits	806	(2,031)
Increase in other receivables due from related parties	45,075	19,901
Acquisition of intangible assets	(4,554)	(4,668)
Increase in prepayments of property, plant and equipment	(15,561)	(19,269)
Increase in restricted assets	(19,737)	(25,293)
Net cash flows from (used in) investing activities	(277,721)	(522,790)
Cash flows from (used in) financing activities:		
Increase (decrease) in short-term borrowings	284,000	226,000
Increase in long-term borrowings	110,180	100,000
Repayments of long-term borrowings	(106,250)	(150,000)
Cash dividends paid	(68,417)	(120,083)
Capital increased by cash	-	461,238
Restricted stocks cancellation	(1,547)	-
Issuance of restricted employee shares	-	13,825
Payment of lease liabilities	(2,133)	-
Other financing activities	404,000	-
Net cash flows from (used in) financing activities	619,833	530,980
Net increase (decrease) in cash and cash equivalents	383,002	8,076
Cash and cash equivalents at beginning of period	225,572	217,496
Cash and cash equivalents at end of period	$ **608,574**	**225,572**

See accompanying notes to financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD.

Notes to the Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in Thousands of New Taiwan Dollars, unless otherwise specified)

(1) Company history

Zhong Yang Technology Co., Ltd. (the " Company") was approved and established by Ministry of Economic Affairs (R.O.C.). The registered address is No.21, Gongyequ 22nd Rd., Nantun Dist., Taichung City 40850, Taiwan (R.O.C.). The major business activities of the Company are manufacture, research and development, sale of molds, and assemble digital lens and coat lens. The Company's common shares were listed on the Taiwan Stock Exchange (TWSE) in December 12, 2018.

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

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

(3) New standards, amendments and interpretations adopted

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16"Leases"

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below,

1) Definition of a lease

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

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

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

The Company decided to apply recognition exemptions to short-term leases of vehicles, dormitory and office equipment.

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company' s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases.

— Applied a single discount rate to a portfolio of leases with similar characteristics.

— Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

— Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

— Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

3) Impacts on financial statements

On transition to IFRS 16, the Company recognized both additional $9,765 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.56%.

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements	$ 11,984
Recognition exemption for:	
short-term leases	(1,754)
Lease liabilities recognized as at December 31, 2018	10,230
Discounted using the incremental borrowing rate at January 1, 2019 (Lease liabilities recognized at January 1, 2019)	$ 9,765

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

On transition to new standards, the Company had no material impact at January 1, 2019.

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

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

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

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

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

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

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

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

(4) Summary of significant accounting policies

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

(a) Statement of compliance

These financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basic of measurement

The financial statements have been prepared on a historical cost basis.

(ii) Functional and presentation currency

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

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the reporting currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated at the average exchange rate. Translation differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity.

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

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item that are considered to form part of the net investment in the foreign operation are recognized in other comprehensive income.

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

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

(i) It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(Continued)

(iii) It is expected to be realized within twelve months after the reporting period; or

(iv) The asset is cash or a cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

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

(i) It is expected to be settled in the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

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

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

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash, cash in bank, and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes should be recognized as cash equivalents.

(f) Financial instruments

(i) Financial assets

Financial assets are classified into the measured at amortized cost.

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

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

·it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

2) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, other receivables, refundable deposits and other financial assets).

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

· debt securities that are determined to have low credit risk at the reporting date; and

· other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

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

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

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

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

The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ' investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

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

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

·significant financial difficulty of the borrower or issuer;

·a breach of contract such as a default or being more than 90 days past due;

·the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

·it is probable that the borrower will enter bankruptcy or other financial reorganization; or

·the disappearance of an active market for a security because of financial difficulties.

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

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company’s procedures for recovery of amounts due.

3) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

(Continued)

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss, and presented it in the line item of non-operating income and expenses in the statement of comprehensive income.

On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss, and presented in the line item of non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

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

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

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition. Financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss.

3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss.

(Continued)

4) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired.

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

5) Offsetting of financial assets and liabilities

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

(g) Inventories

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

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

(h) Investment in subsidiaries

When preparing the parent-company-only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, the amounts of net income, other comprehensive income and equity attributable to shareholders of the Company in the parent-company-only financial statement are equal to those in the consolidated financial statements.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

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 shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

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

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

1)	Buildings	5～35 years
2)	Machinery and equipment	2～10years
3)	Office equipment and other facilities	3～5 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

(j) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

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

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

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

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

   b) the relevant decisions about how and for what purpose the asset is used are predetermined and:

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

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

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including substance fixed payments;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of vehicles, dormitory and office equipment that have a lease term of 12 months or leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Applicable before January 1, 2019

Leases in which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Company's balance sheets.

(Continued)

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. The incentives provided by the lessor for the purpose of the lease arrangement are recognized as a reduction in rental expenses over the lease term using the straight-line method.

Contingent rent is recognized as expense in the period in which it is incurred.

(k) Intangible assets

(i) Goodwill

1) Initial recognition

Goodwill arising from the acquisition of subsidiaries is included in intangible assets.

2) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(ii) Research & development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditures arising from the development phase shall be recognized as an intangible asset if all the conditions described below can be demonstrated; otherwise, they will be recognized in profit or loss as incurred.

1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

2) The intention to complete the intangible asset and use or sell it.

3) The ability to use or sell the intangible asset.

4) How the intangible asset will generate probable future economic benefits.

5) The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.

6) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(Continued)

(iii) Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenditure

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

(v) Amortization

The amortizable amount is the cost of an asset less its residual value.

Except for goodwill with indefinite useful life, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of software is 2~5 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year end. Any changes shall be accounted for as changes in accounting estimates.

(l) Impairment of non-financial assets

The carrying amounts of the Company' s non-financial assets, other than assets arising from construction contracts, deferred tax assets, and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (the higher of its fair value less costs of disposal and its value in use) for the individual asset, then the Company will have to determine the recoverable amount for the asset' s cash generating unit (CGU).

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount; and that reduction will be accounted as an impairment loss, which shall be recognized immediately in profit or loss.

An assessment is made at the end of each reporting period as to whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset' s recoverable amount since the last impairment loss was recognized.

(Continued)

(m) Recognition of revenue

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

(i) Sale of goods

The Company manufactures optical molds and products and sell them to manufacturers. The Company recognizes revenue when the control of the products has been transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer' s acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and the loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have been lapsed, or the Company has objectively evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when molds are accepted or the optical products are delivered as this is the profit in time that the Company has a right to an amount of consideration that is unconditional.

(ii) Financing components

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

(n) Employee benefits

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(o) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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

(Continued)

(p) Income taxes

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

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) arising from the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

(i) the entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfills one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences are also revaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

The 10% surtax on unappropriated earnings is recorded as current tax expense in the following year after the resolution to appropriate retain earnings is approved in the stockholder's meeting.

(Continued)

(q) Business combination

The Company uses the acquisition method to account for business combinations. The Company obtained control over other company through the acquisition in February 2018, and adopted the accounting policies related to business combinations at January 1, 2018.

The Company adopts the acquisition method to deal with business combinations. Goodwill is measured at the consideration transferred less the amounts of the identifiable assets acquired and liabilities assumed (generally at fair value) at the acquisition date. If the amount of net assets acquired and liabilities assumed exceeds the acquisition price, the Company reassesses whether it has correctly identified all of the assets acquired and liabilities assumed, and recognizes a gain for the excess.

All transaction costs relating to a business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

(r) Earnings per share

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise employee compensation not yet approved by the Board of Directors.

(s) Operating segments

The operating segment information is disclosed within the consolidated financial statements but not disclosed in the parent-company-only financial statement.

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

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

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

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements: None.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: None.

(Continued)

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Notes to Financial Statements

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and petty cash	$ 114	109
Checking accounts and demand deposits	548,500	164,033
Time deposits	59,960	61,430
	$ 608,574	225,572

Please refer to note 6(t) for interest rate risk, and sensitivity analysis of the financial assets and liabilities of the Company.

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

	December 31, 2019	December 31, 2018
Notes receivable	$ 1	855
Accounts receivable	398,378	360,637
Less: allowance for doubtful accounts	(13,598)	(15,326)
	$ 384,781	346,166
Notes and accounts receivable, net	$ 141,915	186,857
Accounts receivable-related parties, net	$ 242,866	159,309

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision of notes and accounts receivable as of December 31, 2019 and 2018 were determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 327,630	0%	-
1 to 30 days past due	22,272	9.30%	2,072
31 to 90 days past due	33,194	14.41%	4,784
91 to 180 days past due	8,108	31.09%	2,521
181 to 270 days past due	5,756	51.30%	2,953
271 to 360 days past due	1,419	89.36%	1,268
	$ 398,379		13,598

(Continued)

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	December 31, 2018		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 256,431	0%	-
1 to 30 days past due	33,145	8.51%	2,820
31 to 90 days past due	59,404	14.73%	8,752
91 to 180 days past due	12,512	30%	3,754
	$ 361,492		15,326

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

	2019	2018
Balance on January 1	$ 15,326	7,800
Impairment losses recognized (reversed)	(1,728)	7,526
Balance on December 31	$ 13,598	15,326

As of December 31, 2019 and 2018, the Company did not provide any notes and accounts receivable as collateral.

(c) Other receivables (including related parties)

	December 31, 2019	December 31, 2018
Other receivables	$ 17,268	10,228
Other receivables-related parties	27,301	40,191
Other receivables-loans to subsidiaries	59,960	92,145
Less: Loss allowance	(10,000)	(10,000)
	$ 94,529	132,564

On August 10, 2016, the Company signed the contract with Taiwan Development Institute (TDI) to establish the industry-university research and development center, and paid the guarantee of the contract $10,000 thousand on August 16, 2016. However, the Company was unable to obtain a factory license due to the insufficient weight bearing of the building and the inability to improve the problem significantly. The Company officially issued a letter to suspend the contract on March 6, 2017 and issued a payment order to the TDI in June 2017. However, TDI objected to pay the order during the statutory period. Therefore, the case entered into the litigation stage. The case was pronounced on November 7, 2018 and the Company lost the lawsuit. The Company refused to accept the result and raised the appeal. The Company assessed the possibility of recovery based on conservative principles and decided to propose impairment losses for all unreceived amount.

On July 31, 2019 the Company and TDI conducted mediation with the Civil Mediation Division of the Taichung Branch of the Taiwan High Court, TDI was willing to return $3,000 thousand, which has not been received, as of the reporting date.

As of December 31, 2019 and 2018, the Company did not provide any other receivables as collateral.

(Continued)

(d) Inventories

		December 31, 2019	December 31, 2018
Finished goods	$	25,227	36,730
Work in progress (including external warehouse)		98,540	114,507
Raw materials		21,150	13,886
	$	144,917	165,123

In 2019, the cost of good sold and expense of inventories amounted to $652,380 thousand(2018: $574,542 thousand). In 2019, the write-down of inventories amounted to $28,851 thousand(2018: $39,944 thousand).

As of December 31, 2019 and 2018, the Company did not provide any inventories as collateral.

(e) Investments accounted for using equity method

A summary of the Company's financial information for investments accounted for using the equity method at the reporting date is as follows:

		December 31, 2019	December 31, 2018
Subsidiary	$	659,812	429,387

(i) Please refer to the consolidated financial statements.

(ii) The Company was approved by the Board of Directors on November 22, 2017, to obtain the 100% equity of Eterge Opto-Electronics Co., Ltd. (ETERGE), an optical lens design and manufacture company for glass and plastics. The Company signed a share sale and purchase agreement with the original shareholders of ETERGE on February 23, 2018. Among total of 1,800 thousand shares of which were obtained at $11.5 per share, and the total price was $20,700 thousand. The above price and shares have been completely paid and delivered. In 2019 and 2018, it participated in capital increase of ETERGE for $15,400 thousand and $12,000 thousand, respectively.

(iii) In response to the expanding capital demand of Dongguan JMO Optical Co. Ltd. (JMO), the Company participated in capital increase of Dongguan JMO Optical Co. Ltd. for $90,163 thousand and $54,722 thousand in 2019 and 2018, respectively, through CHENG TIAN Photoelectric Technology (CHENG TIAN).

(iv) The Company's investments accounted for using equity method was not in pledge guarantee on December 31, 2019 and 2018.

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(f) Property, plant and equipment

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

	Land	Buildings and structures	Machinery and equipment	Office equipment and other facilities	Construction in progress and testing equip	Total
Cost or deemed cost:						
Balance on January 1, 2019	$ 268,000	239,132	409,034	22,152	128,343	1,066,661
Additions	-	5,437	142,642	1,153	16,097	165,329
Disposals	-	-	(14,227)	(25)	-	(14,252)
Transformations	-	11,014	123,371	-	(128,343)	6,042
Balance on December 31, 2019	$ 268,000	255,583	660,820	23,280	16,097	1,223,780
Balance on January 1, 2018	$ 268,000	123,369	128,837	10,163	96,440	626,809
Additions	-	84,618	212,509	14,695	126,170	437,992
Disposals	-	-	(5,405)	(5,547)	-	(10,952)
Transformations	-	31,145	73,093	2,841	(94,267)	12,812
Balance on December 31, 2018	$ 268,000	239,132	409,034	22,152	128,343	1,066,661
Depreciation and impairments loss:						
Balance on January 1, 2019	$ -	19,423	59,147	4,113	-	82,683
Depreciation	-	28,184	70,835	4,637	-	103,656
Disposals	-	-	(2,592)	(17)	-	(2,609)
Balance on December 31, 2019	$ -	47,607	127,390	8,733	-	183,730
Balance on January 1, 2018	$ -	3,279	25,198	5,815	-	34,292
Depreciation	-	16,144	34,354	3,845	-	54,343
Disposals	-	-	(405)	(5,547)	-	(5,952)
Balance on December 31, 2018	$ -	19,423	59,147	4,113	-	82,683
Carrying amounts:						
Balance on December 31, 2019	$ 268,000	207,976	533,430	14,547	16,097	1,040,050
Balance on December 31, 2018	$ 268,000	219,709	349,887	18,039	128,343	983,978

As of December 31, 2019 and 2018, the aforementioned property, plant and equipment of the Company had been pledged as collateral for long-term borrowings and guaranteed convertible corporate bonds; please refer to note 8.

(g) Right-of-use assets

The Company leases many assets including office, factory and warehouse. Information about leases for which the Company as a lessee is presented below:

	Buildings
The cost of right-of-use assets:	
Balance on January 1, 2019	$ -
Adjustment on initial application of IFRS 16	9,765
Additions	58,815
Disposal	(9,765)
Balance on December 31, 2019	$ 58,815

(Continued)

		Buildings
Depreciation and impairment loss:		
Balance on January 1, 2019	$	-
Depreciation for the period		2,265
Disposal		(1,775)
Balance on December 31, 2019	$	**490**
Carrying amount:		
Balance on December 31, 2019	$	**58,325**

The Company leases offices and factory facilities under an operating lease for the years ended December 31, 2018, please refer to note 6(k).

(h) Short-term borrowings

The short-term borrowings of the Company were as follows:

		December 31, 2019	December 31, 2018
Unsecured bank loans	$	430,000	197,000
Secured bank loans		80,000	29,000
Total	$	**510,000**	**226,000**
Unused short-term credit lines	$	**490,000**	**676,145**
Range of interest rates		**1%~1.48%**	**1.19%~~1.85%**

(i) For the collateral for short-term borrowings; please refer to note 8.

(ii) The main management of the Company was the joint guarantor of short-term borrowings; please refer to note 7.

(i) Long-term borrowings

The conditions of long-term borrowings of the Company were as follows:

		December 31, 2019	December 31, 2018
Unsecured bank loans	$	153,930	-
Secured bank loans		-	150,000
Less: current portion		(75,000)	(7,560)
Total	$	**78,930**	**142,440**
Unused credit lines	$	**499,820**	**-**
Range of interest rates		**0.7%~1.6%**	**1.55%~1.65%**
Expiration date		**109.01~113.09**	**108.1~121.1**

(i) In order to set up the operation headquarter and to purchase equipment for production, the Company signed a medium-term and long-term loans contract with Mega Bank in 2017, with a total credit amount of $250,000 thousand (including long-term credit amount $200,000 thousand and medium-term credit amount $50,000 thousand and both were not allowed to be used cyclically). The credit period for long-term loans was 15 years from the date of being used (including the 2-year grace period), and the credit period for medium-term loan was 7 years from the date of being used. The Company had used the full credit amount. The Company considered the condition of working capitals and paid off $100,000 thousand and $50,000 thousand in 2018 and 2017 in advance respectively. The long-term loans were fully repaid in 2019.

(ii) In order to purchase equipment for expanding the Company's operation, the Company signed a medium-term and long-term loans contract with JihSun Bank in 2018, with a total credit amount of $100,000 thousand (not allowed to be used cyclically). In May 2019, the Group added credit and used the credit amount of $50,000 thousand (not allowed to be used cyclically), with maturity in June 2021. The Company had used the full credit amount of $150,000 thousand. The Company considered the condition of working capitals and paid off $50,000 thousand in advance in 2018 and repaid $6,250 thousand in 2019.

(iii) In order to purchase equipment for expanding the Company's operation and meet the needs of medium-term working capital, the Company signed a medium-term and long-term loans contract wtih Bank SinoPac in 2019, with a total credit amount of $200,000 thousand (not allowed to be used cyclically), with maturity in September 2024. The Company had used the credit amount of $30,180 thousand.

(iv) In order to purchase equipment for expanding the Company's operation and meet the needs of medium-term working capital, the Company signed a medium-term and long-term loans contract with Chang Hwa Bank in 2019, with a total credit amount of $360,000 thousand (not allowed to be used cyclically), with maturity in September 2024. The Company had used the credit amount of $30,000 thousand.

(v) The main management of the Company was the joint guarantor of long-term borrowings; please refer to note 7.

(vi) For the information of collaterals for long-term borrowings; please refer to note 8.

(j) Lease liabilities

	December 31, 2019
Current	$ 5,126
Non-current	$ 53,265

For the maturity analysis, please refer to note 6(t) financial instruments.

The amounts recognized in profit or loss were as follows:

		2019
Interest on lease liabilities	$	227
Expenses relating to short-term leases or low-value leases	$	5,023

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

		2019
Total cash outflow for leases	$	7,383

The Company leases buildings as factory and office for a period of 10 years.

(k) Operating lease

Non-cancellable operating lease rentals payable were as follows:

		December 31, 2018
Less than one year	$	3,614
Between one and five years		7,440
More than five years		930
	$	11,984

The Company leases a number of cars, warehouse and factory facilities under operating leases. The leases typically run for a period of 1 to 6 years.

In 2018, an amount of $7,432 thousand was recognized as an expense in profit or loss in respect of operating leases.

The lease of offices and factory facilities was signed together with the lease of land and buildings. Since the ownership of the land has not been transferred, the rent paid to the landlord of buildings is regularly adjusted to market price, and the Company does not assume the residual value of buildings, it was determined that almost all the risks and rewards of the building are owned by the landlord. Therefore, the Company recognized the lease as operating lease.

(l) Employee benefits

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

The pension costs of the Company incurred from the contributions to the Bureau of the Labor Insurance amounted to $8,784 thousand and $7,100 thousand for the years ended December 31, 2019 and 2018, respectively.

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(m) Income taxes

(i) Income tax expense

The components of income tax in the years 2019 and 2018 were as follows:

		2019	2018
Current tax expense			
Current period	$	4,758	35,970
Adjustment for prior periods		730	2,229
		5,488	38,199
Deferred tax expense			
Adjustment in tax rate		-	816
Change in unrecognized deductible temporary differences		(10,443)	(1,909)
		(10,443)	(1,093)
Income tax expense (profit)	$	**(4,955)**	**37,106**

The amount of income tax recognized in other comprehensive income for 2019 and 2018 was as follows:

		2019	2018
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation	$	**(5,292)**	**(2,309)**

Reconciliation of income tax and profit before tax for 2019 and 2018 is as follows:

		2019	2018
Profit excluding income tax	$	114,130	177,185
Income tax using the Company's domestic tax rate		22,826	35,437
Adjustment in tax rate		-	816
Change in unrecognized temporary differences		(29,002)	(6,412)
Change in provision in prior periods		730	2,229
10% surtax on unappropriated earnings		-	8,871
Others		491	(3,835)
	$	**(4,955)**	**37,106**

(Continued)

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(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

The consolidated entity is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2019 and 2018. Also, management considers it probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	December 31, 2019	December 31, 2018
Aggregate amount of temporary differences related to investments in subsidiaries	$ 177,072	32,062
Unrecognized deferred tax liabilities	$ 35,414	6,412

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2019 and 2018 were as follows:

	Unrealized exchange gains	Investment income recognized under the equity method	Total
Deferred Tax Liabilities:			
Balance at January 1, 2019	$ 1,135	24,861	25,996
Recognized in profit or loss	(1,135)	-	(1,135)
Balance at December 31, 2019	$ -	24,861	24,861
Balance at January 1, 2018	$ -	21,132	21,132
Recognized in profit or loss	1,135	3,729	4,864
Balance at December 31, 2018	$ 1,135	24,861	25,996

		Unearned gross profits	Exchange differences on translation	Allowance for inventory valuation and obsolescence losses	Others	Total
Deferred Tax Assets:						
Balance at January 1, 2019	$	5,167	4,299	12,314	4,985	26,765
Recognized in profit or loss		902	-	5,538	2,868	9,308
Recognized in other comprehensive income		-	5,292	-	-	5,292
Balance at December 31, 2019	$	6,069	9,591	17,852	7,853	41,365
Balance at January 1, 2018	$	8,505	1,990	3,480	4,524	18,499
Recognized in profit or loss		(3,338)	-	8,834	461	5,957
Recognized in other comprehensive income		-	2,309	-	-	2,309
Balance at December 31, 2018	$	5,167	4,299	12,314	4,985	26,765

(iii) Assessment of tax

The Company' s tax returns for the years through 2017 were examined and approved by the National Tax Administration.

(n) Capital and other equity

As of December 31, 2019, the number of authorized ordinary shares were 100,000 thousand shares (2018: 80,000 thousand shares) with par value of $10 per share. The total value of authorized ordinary shares was amounted to $1,000,000 thousand (2018: $800,000 thousand). As of that date, 68,393 thousand shares (2018: 68,437 thousand shares) of ordinary shares were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2019 and 2018 was as follows:

(in thousands of shares)		2019	2018
Balance on January 1	$	68,437	60,042
Issued for cash		-	8,000
Restricted employee shares (cancelled)		(44)	395
Balance on December 31	$	68,393	68,437

(i) Ordinary shares

A resolution of the issuance of the new restricted employee shares was approved by the Board of Directors on March 21, 2018, issuing 400 thousand ordinary shares at $35 per share with a face value of $10 per share. The statutory registration procedures had been completed. Due to the resignation of employees, the Company cancelled and unvested 44 thousand shares and 5 thousand shares of new restricted employee shares in 2019 and 2018, respectively. Please refer to Note 6(o) for information about new restricted employee shares.

A resolution was approved by the Board of Directors on October 24, 2018 that the capital was increased by issuance of 8,000 thousand ordinary shares at $58 per share with a face value of $10 per share. In addition, according to the related regulations, 15% of the total number of shares issued this time was retained, and providing them for employees to subscribe. The total amount received from funds raising which was deducted the relevant fees was $464,238 thousand. The statutory registration procedures had been completed, and all amounts of the issued shares had been charged. Please refer to Note 6(o) for information about capital increase by cash and the retention for employee subscription.

(ii) Capital surplus

The balances of capital surplus were as follows:

		December 31, 2019	December 31, 2018
Share capital	$	770,635	765,549
Cash issuance of share reserved for employee subscription		11,877	11,877
Recognition of changes in ownership interests in subsidiaries		11,766	694
Employee share options		6,246	2,082
Restricted employee shares		19,832	28,057
	$	**820,356**	**808,259**

(iii) Retained earnings

Based on the Company's articles of incorporation amended on June 21, 2019, if there is any profit after closing of books in a given year, the Company shall first defray tax due, cover accumulated losses and set aside ten percent of it as legal reserve and then set aside or reverse a special reserve in accordance with laws and regulations. The remaining profit, together with the beginning balance of undistributed retained earnings by new shares, can be distributed according to the distribution plan proposed by the board of directors to be submitted to during the shareholders' meeting for approval. However, the distribution of earnings or legal reserve and capital surplus, distributed by way of cash, shall be decided during the board meeting, approved by more than half of the directors, with two thirds of the directors in attendance; thereafter, to be reported in the shareholders' meeting of the Company .

The Company is in the growth stage. Based on capital expenditures, business expansion needs and sound financial planning for sustainable development, the dividend policy of the Company is in line with the Company's profitability, capital structure and future operational needs. Dividends distributed to shareholders will not less than 20% of the distributable surplus each year. However, if the accumulated distributable surplus is less than 40% of share capital, it will not be distributed; the principle of distributing dividends to shareholders is that stock dividends is combined with cash dividends, and the distribution of cash dividends will not less than 30% of the total dividends to be distributed.

1) Legal reserve

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

2) Earnings distribution

Earnings distribution for 2018 and 2017 was decided by the resolution adopted, at the general meeting of shareholders held on June 21, 2019 and June 21, 2018, respectively. The relevant dividend distributions to shareholders were as follows:

	2018		2017	
	Distribution rate (dollar)	**Amount**	**Distribution rate (dollar)**	**Amount**
Dividends distributed to ordinary shareholders				
Cash	$ 1.00	68,417	2.00	120,083

(o) Share-based payment

(i) Employee stock options

Based on a resolution at the Board of Directors on May 9, 2018, the Company decided to issue 1,000 thousand shares of employee stock options on the grant date to those full-time employees of the Company or its domestic and foreign subsidiaries (the Company directly or indirectly holds more than 50% of its equity). The employee stock options have been registered and approved by the Securities and Futures Bureau of the FSC.

The employees who receive the stock options can exercise 100% of stock options after holding for two years. The exercisable duration of the option is five years. The outstanding options are deemed to be waiver of the right to exercise after the expiration date. The employees who hold the options are not able to claim the right to exercise. No transference, pledge or donation is allowed to except for inheritance. If the employees violate the labor contract, working rules and other significant negligence, the Company has the right to recall and cancel the options for which without the exercise right.

Resolutions of the issuance of the employee stock options and subscription method were approved by the Board of Directors on June 15, 2018, with total 1,000 thousand shares, and the grant date was July 2, 2018.

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The details of the employee stock options were as follow:

(in thousand shares)	2019 Weighted average of performance price	2019 Number of share option	2018 Weighted average of performance price	2018 Number of share option
Outstanding shares on January 1	100.01	937	-	-
Shares granted in the current period	-	-	106	1,000
Shares forfeited in the current period	100.01	(128)	106	(63)
Shares exercised in the current period		-	-	-
Shares expired in the current period		-	-	-
Outstanding shares on 31 December	100.01	809	100.01	937
Exercisable shares on December 31		-		-

The Company adopted the Black-Scholes model to compute the fair value of share-based payment on the grant date, and the input parameters of this model are as follows:

	2018 Employee stock options
Fair value on grant date	$ 13.88
Market price on grant date	$ 81.03
Exercise price	$ 106
Expected volatility	34.82%
Expected life of the option	3.5 years
Expected dividend	-
Risk-free interest rate	0.65%

Expected volatility is based on the historical volatility of the same industry; the expected life of the options is based on the Company's issuance methods; the expected dividends and risk-free interest rate are based on government bonds.

The expense recognized by the Company in 2019 and 2018 due to the employee stock options were thousand $4,164 thousand and $2,082 thousand, respectively.

(ii) New restricted employee shares

Based on a resolution at the annual shareholders' meeting on June 21, 2018, the Company decided to issue 400 thousand new restricted employee shares to those full-time employees of the Company on the grant date. The restricted shares have been registered and approved by the Securities and Futures Bureau of the FSC. The grant date of the new restricted employee shares was September 1, 2018.

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These employees with the restricted share awards are entitled to purchase the Company's stocks at the price of $35 per share. When these employees continue to provide service to the Company for at least 1 year, 2 years, 3 years, 4 years and 5 years from the grant date, their most recent performance grades reach to 85 and above and the sales revenue of the Company reach that year's target, 20% of the issued restricted shares will be vested in each year. The restricted shares are kept by the trust immediately after issuance. Stock dividends and cash dividends obtained for holding restricted shares are also required to be kept by the trust before the vested conditions. If these employees do not meet the vesting conditions, the Company will repurchase all the unvested shares at the issue price. These employees are entitled to acquire stock and cash dividends during the vesting period even if these employees will not meet the vesting conditions.

The details of the new restricted employee shares were as follows:

(in thousand shares)	December 31, 2019	December 31, 2018
Outstanding shares on 1 January	395	-
Shares granted in the current period	-	400
Shares vested in the current period	(72)	-
Shares forfeited in the current period	(44)	(5)
Outstanding shares on 31 December	**279**	**395**

The fair value of restricted employee shares was $81.03 on the grant date, which was deemed as the fair value of aforementioned new restricted employee shares. The expenses recognized by the Company in 2019 and 2018 due to the new restricted employee shares were $5,991 thousand and $2,803 thousand, respectively.

(iii) Cash capital increase reserved for employee subscription

As of December 31, 2018, the share-based payment of the company was as follow:

	Equity-settled Cash capital increase reserved for employee subscription
Grant date	107.11.28
Number of shares granted	872 thousand shares
Contract period	7 days
Grant object	Employees of the company
Vesting conditions	Immediately vested

The Company adopted the Black-Scholes model to compute the fair value of share-based payment on the grant date, and the inputs were as follows:

	2018 Cash capital increase reserved for employee subscription
Fair value on grant date	$ 10.04
Share price on grant date	$ 68.03
Exercise price	$ 58
Expected volatility	41.60 %
Expected life	7 days
Expected dividend	-
Risk-free interest rate	0.44 %

Expected volatility is based on the historical volatility of the same industry; the expected life of the options is based on the Company's issuance methods; the expected dividends and risk-free interest rate are based on government bonds.

The expense recognized by the Company in 2018 was $8,754 thousand due to the cash capital increase reserved for employee subscription.

(p) Earnings per share

The Company's basic and diluted earnings per share were calculated as follows:

	2019	2018
Basic earnings per share:		
Profit attributable to ordinary shareholders of the Company	$ 119,085	140,079
Weighted-average number of ordinary shares(thousand shares)	68,065	60,842
Basic earnings per share	$ 1.75	2.30
Diluted earnings per share:		
Profit attributable to ordinary shareholders of the Company (diluted)	$ 119,085	140,079
Weighted average number of ordinary shares (basic)	68,065	60,842
Effect of dilution		
Non-vested employee restricted stock	48	37
Effect of employee stock compensation	124	79
Weighted average number of ordinary shares (diluted) (thousand shares)	68,237	60,958
Diluted earnings per share	$ 1.75	2.30

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(q) Revenue from contracts with customers

(i) Disaggregation of revenue

		2019	2018
Primary geographical markets			
China	$	391,196	304,362
Korea		362,961	409,142
Taiwan		115,867	139,763
Other countries		20,124	3,717
	$	**890,148**	**856,984**
Primary products:			
Mold (including mold base and core)	$	662,762	612,195
Other		227,386	244,789
	$	**890,148**	**856,984**

(ii) Contract balances

		December 31, 2019	December 31, 2018	January 1, 2018
Notes and accounts receivable (including related parties)	$	398,379	361,492	275,589
Less: allowance for impairment		(13,598)	(15,326)	(7,800)
Total	$	**384,781**	**346,166**	**267,789**
Contract liabilities (unearned revenue)	$	**19,419**	**6,100**	**29,077**

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

The amount of revenue recognized for the years ended December 31, 2019 and 2018 that were included in the contract liability balance at the beginning of the period were $6,100 thousand and $28,501 thousand, respectively.

The major change in the balance of contract assets and contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received.

(r) Employee compensation and directors' and supervisors' remuneration

In accordance with the articles of incorporation, the Company should contribute no less than 2% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit.

For the years ended December 31, 2019 and 2018, the remunerations to employees amounted to $10,000 thousand and $5,000 thousand, and the remunerations to directors amounted to $2,500 thousand and $2,300 thousand. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. If there are any subsequent adjustments to the actual remuneration amounts after the annual shareholder' meeting, the adjustment will be regarded as changes in accounting estimates and will be reflected in profit or loss in the following year. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors. The above-mentioned amount of remuneration to employees and directors are no different from the estimated amount of the 2019 and 2018 consolidated financial statement. Related information would be available at the Market Observation Post System website.

(s) Other non-current liabilities

In order to repay bank loans and purchase machinery and equipment, a resolution was decided during the board meeting held on November 7, 2019 for the Company to issue its first domestic guaranteed convertible corporate bond and second domestic unsecured convertible corporate bond.

The Company issued 4,000 three-year guaranteed convertible corporate bonds, each having a nominal value of $100,000 per denomination, at a total amount of $400 million, and an issuance rate of 101% with the issuance date set on January 2, 2020. As of December 31, 2019, the amount of the convertible corporate bonds received in advance was $404,000 thousand, which was recognized as other non-current liabilities.

The Company issued 2,500 three-year unsecured convertible corporate bonds issued each having a nominal value of $100,000 per denomination, at a total amount of $250 million, and an issuance rate of 100.1%, with the issuance date set on January 3, 2020. On January 2, 2020, the number of copies of 2,500, with a total amount of $250,250 thousand, had been fully collected.

(t) Financial instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of credit risk

To minimize credit risk, the Company periodically evaluates financial status of the customers and the possibility of collecting receivables. Besides, the Company monitors and reviews the recoverable amount of the receivables to ensure the uncollectible amount are recognized appropriately as loss allowance. As of December 31, 2019 and 2018, 82% and 91%, respectively, of notes and accounts receivable were four and six major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

For credit risk exposure of notes and accounts receivables, please refer to note 6(b). Other receivables at amortized cost, for the details of the loss allowance for impairment at 2019 and 2018, please refer to Note 6(c).

Other financial assets at amortized cost includes cash and cash equivalents, other receivables, restricted assets (recorded as other non-current assets) and guarantee deposits. All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

		Carrying amount	Contractual cash flows	Within one year	1~2 years	2~5 years	Over 5 years
December 31, 2019							
Non-derivative financial liabilities:							
Short-term borrowings	$	510,000	(510,000)	(510,000)	-	-	-
Notes and accounts payable (including related parties)		36,546	(36,546)	(36,546)	-	-	-
Others payables		45,736	(45,736)	(45,736)	-	-	-
Long-term borrowings (including current portion)		153,930	(153,930)	(75,000)	(18,750)	(60,180)	-
Lease liabilities (including current and non-current portion)		58,391	(63,191)	(6,000)	(6,000)	(18,625)	(32,566)
	$	**804,603**	**(809,403)**	**(673,282)**	**(24,750)**	**(78,805)**	**(32,566)**
December 31, 2018							
Non-derivative financial liabilities							
Short-term borrowings	$	226,000	(226,000)	(226,000)	-	-	-
Notes and accounts payable (including related parties)		80,859	(80,859)	(80,859)	-	-	-
Other payables		68,410	(68,410)	(68,410)	-	-	-
Long-term borrowings (including current portion)		150,000	(150,000)	(7,560)	(57,560)	(22,680)	(62,200)
	$	**525,269**	**(525,269)**	**(382,829)**	**(57,560)**	**(22,680)**	**(62,200)**

Except for some long-term borrowings repaid in advance , the Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to foreign currency risk

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

		December 31, 2019			December 31, 2018		
		Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets							
Monetary items							
USD	$	23,905	USD/TWD = 29.98	716,672	19,568	USD/TWD = 30.715	601,031
Financial liabilities							
Monetary items							
USD	$	971	USD/TWD = 29.98	29,111	2,821	USD/TWD = 30.715	86,647

2) Sensitivity analysis

The Company' s exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes and accounts receivable, other receivables, borrowings, accounts payable, and other payables that are denominated in foreign currency. A strengthening (weakening) of 5% of the TWD against the USD as at December 31, 2019 and 2018, would have increased (decreased) the profit before income tax, were as follow:

		December 31, 2019	December 31, 2018
USD (against the TWD)			
Strengthening of 5%	$	34,378	25,719
Weakening of 5%		(34,378)	(25,719)

3) Foreign exchange gain and loss on monetary items

Since the Company has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2019 and 2018, foreign exchange gain (loss) (including realized and unrealized portions) amounted to $(16,806) thousand and $15,385 thousand, respectively.

(iv) Interest rate analysis

Please refer to the notes on liquidity risk management and interest rate exposure of the Company's financial assets and liabilities.

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Interest rate exposure of the Company's financial assets and liabilities were as follows:

	Book value	
	December 31, 2019	December 31, 2018
Instruments with fixed interest rate:		
Financial assets	$ 59,960	61,430
Instruments with variable interest rate:		
Financial assets	$ 547,693	163,762
Financial liabilities	(663,930)	(376,000)
	$ (116,237)	(212,238)

The following sensitivity analysis is based on the exposure to the interest rate risk of non-derivative financial instruments on the reporting date. Regarding assets and liabilities with variable interest rates, the analysis is based on the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 1 basis point when reporting to management internally, which also represents the Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 1 basis point, the Company's profit before income tax would have decreased or increased by $291 thousand and $531 thousand for the December 31, 2019 and 2018, respectively, with all other variable factors remaining constant. This is mainly due to the Company's demand deposits and borrowings with variable interest rate.

(v) Fair value of financial instruments - fair value hierarchy

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

	December 31, 2019				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:					
Cash and cash equivalents	$ 608,574	-	-	-	-
Notes and accounts receivable (including related parties)	384,781	-	-	-	-
Other receivables (including related parties)	94,529	-	-	-	-
Restricted assets (recorded as other non-current assets)	77,957	-	-	-	-
Guarantee deposits	1,575	-	-	-	-
Total	$ 1,167,416				

(Continued)

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	December 31, 2019				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost:					
Short-term borrowings	$ 510,000	-	-	-	-
Notes and accounts payable (including related parties)	36,546	-	-	-	-
Other payables	45,736	-	-	-	-
Long-term borrowings (including current portion)	153,930	-	-	-	-
Lease liabilities (current and non-current)	58,391	-	-	-	-
Total	$ 804,603				

	December 31, 2018				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:					
Cash and cash equivalents	$ 225,572	-	-	-	-
Notes and accounts receivable (including related parties)	346,166	-	-	-	-
Other receivables (including related parties)	132,564	-	-	-	-
Restricted assets (recorded as other non-current assets)	58,220	-	-	-	-
Guarantee deposits	2,381	-	-	-	-
Total	$ 764,903				
Financial liabilities measured at amortized cost:					
Short-term borrowings	$ 226,000	-	-	-	-
Notes and accounts payable (including related parties)	80,859	-	-	-	-
Other payables	68,410	-	-	-	-
Long-term borrowings (including current portion)	150,000	-	-	-	-
Total	$ 525,269				

(u) Financial risk management

(i) Overview

The Company have exposures to the following risks from its financial instruments:

1) Credit risk

2) Liquidity risk

3) Market risk

The following likewise discusses the Company's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risks exposures, please refer to the respective notes in the accompanying financial statements.

(ii) Structure of risk management

The Company's finance management department provides business services for the overall internal department. It sets the objectives, policies and processes for managing the risk and the methods used to measure the risk arising from both the domestic and international financial market operations.

The Company minimizes the risk exposure through derivative financial instruments. The Board of Directors regulated the use of derivative financial instruments in accordance with the Company's policy about risks arising from financial instruments such as currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investments of excess liquidity. The internal auditors of the Company continue with the review of the amount of the risk exposure in accordance with the Company's policies and the risk management policies and procedures. The Company has no transactions in financial instruments (including derivative financial instruments) for the purpose of speculation.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investments in debt securities.

1) Accounts receivable and other receivables

The sales target of the Company is significantly concentrated on a small number of customers. In order to reduce the credit risk, the Company continuously evaluates the financial status of the main customers and the actual collection situations, and the Company regularly assesses the possibility of accounts receivable recovery.

The Company does not hold any collateral or other credit enhancement instrument to avoid the credit risk of financial assets.

The Company sets the allowance for bad debt account to reflect the estimated losses for accounts receivables, other receivables, and investments. The allowance for bad debt account consists of specific losses relating to individually significant exposure and the unrecognized losses arising from similar assets groups. The allowance for bad debt account is recognized based on historical collection records of similar financial assets.

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Company's finance department. The Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Company does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The Company' s policy is to provide financial guarantees only to wholly owned subsidiaries. At December 31, 2019, the Company did not provide guarantee to subsidiary.

(iv) Liquidity risk

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

(v) Market risk

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

1) Currency risk

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

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Company buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

The Company borrows funds with variable interest rates, which has a risk exposure to changes in interest rates.

3) Other market price risk

The Company is not exposed to equity price risk because it does not hold equity securities.

(Continued)

(v) Capital management

The Company has to maintain sufficient capital to establish and expand production capacity and equipment. As the optical lens and related mold industry are highly affected by the cyclical fluctuations of the business environment, the capital management of the Company is to ensure that the Company has sufficient and necessary financial resources to support the working capital needs, capital expenditures, research and development, dividend payments, and other businesses within the next 12 months.

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

The Company does not have investing activities which did not affect the current cash flow in the years ended December 31, 2019 and 2018.

Reconciliation of liabilities arising from financing activities were as follows:

			Non-cash changes		
	January 1, 2019	Cash flows	Acquisition	Disposal	December 31, 2019
Long-term borrowings	$ 150,000	3,930	-	-	153,930
Short-term borrowings	226,000	284,000	-	-	510,000
Lease liabilities	9,765	(2,133)	58,815	(8,056)	58,391
Unearned convertible bonds	-	404,000	-	-	404,000
Total liabilities from financing activities	$ 385,765	689,797	58,815	(8,056)	1,126,321

			Non-cash changes	
	January 1, 2018	Cash flows	Foreign exchange movement	December 31, 2018
Short-term borrowings	$ -	226,000	-	226,000
Long-term borrowings	200,000	(50,000)	-	150,000
Total liabilities from financing activities	$ 200,000	176,000	-	376,000

(7) Related-party transactions

(a) Names and relationship with related parties

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

Name of Related Party	Relationship with the Company
CHENG TIAN	A subsidiary
JMO	〃
Dongguan City JMOL Optical Co., Ltd. (JMOL)	〃
Eterge Opto-Electronics Co., Ltd. (ETERGE)	〃
Hon Hai Precision Industry Co., Ltd. (HON HAI)	An associate
WWW (Jin Cheng) Co., Ltd. (WWW)	〃
Mr. Cheng Cheng Tien	Key management personnel
Mr. Lee Jung Chou	〃

(b) Significant transactions with related parties

(i) Sales

The amounts of significant sales by the Company to related parties were as follows:

	2019	2018
Subsidiary-JMO	$ 342,139	272,865
Other subsidiaries	37,669	9,364
Associates	4,969	30,676
	$ 384,777	312,905

The credit conditions and sales prices of the above-mentioned related party transactions of the Company were determined in accordance with the agreement of both parties.

(ii) Purchases

The amounts of significant purchases by the Company from related parties were as follows:

	2019	2018
Subsidiaries:		
JMOL	$ 66,736	188,349
JMO	190,714	156,205
Other subsidiaries	-	106
Associates	-	4,214
	$ 257,450	348,874

The payment terms and purchase prices of the above-mentioned related party transactions of the Company were determined by the agreement of both parties. The partial purchases from related parties of the Company were recognized as manufacturing expenses and operating expenses.

(iii) Receivables from related parties

The receivables from related parties were as follows:

Account	Relationship		December 31, 2019	December 31, 2018
Accounts receivable	Subsidiaries:			
	JMO	$	223,293	136,509
	Other subsidiaries		16,594	6,168
	Associates		5,932	16,632
Less: loss allowance	Associates		2,953	-
		$	**242,866**	**159,309**

(iv) Payables to related parties

The payables to related parties were as follows:

Account	Relationship		December 31, 2019	December 31, 2018
Accounts payable	Subsidiaries:			
	JMO	$	19,864	49,983
	JMOL		552	20,479
	Other subsidiaries		-	66
			20,416	70,528
Other payables	Subsidiaries		116	-
	Associates		-	2,853
			116	2,853
		$	**20,532**	**73,381**

(v) Property transactions

In 2019 and 2018, the Company sold equipment to subsidiary JMO amounting to $7,509 thousand and $5,243 thousand with gain on disposal $235 thousand and $243 thousand. As of December 31, 2019 and 2018, the outstanding balance was $2,788 thousand and $5,222 thousand, respectively, listed as other receivables from related parties.

The Company purchased equipment from its associates in 2019, at an amount of $5,565 thousand, which had been fully paid as of December 31, 2019.

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(vi) Unearned revenue

The associate entrusted the Company to design and manufacture molds and other products, with a prepayment of $184 thousand in 2019, listed as contract liabilities.

(vii) Loans to related parties

The loans to related parties were as follows:

	December 31, 2019	December 31, 2018
Subsidiary—JMO	$ 59,960	92,145

The Company lent US$2,000 thousand and US$3,000 thousand to subsidiary JMO, which were listed as other receivables, and the calculated interest at the rate of 3.50% and 4.75% which was based on the contract. The loan was unsecured. Interest income for 2019 and 2018 were $2,970 thousand and $3,442 thousand, respectively. The interest receivable on December 31, 2019 and 2018, were $2,040 thousand and $3,485 thousand, respectively, and was listed in other receivables.

The Company lent to subsidiary-CHENG TIAN. Interest income in 2018 was $1,376 thousand. As of December 31, 2018, the interest receivable had been collected.

(viii) Lease expenses

The Company entered into several one-year lease agreements for its equipment with its affiliated company, Hon Hai Precision, in 2018. The Company slected to apply the exemption recognition requirements instead of recognizing its related right-of-assets and lease liabilities, resulting in the Company to recognize the rental cost amounting to $4,390 thousand, which had been fully paid.

The Company entered into several one-to-two-year lease agreements for its equipment with its associates, Hon Hai, in 2018, with the rental amounting to $5,300 thousand for the period from January 1 to December 31, 2018.

(ix) Lease income

The Company leased the office to its subsidiary, ETERGE in 2019. The rental income of $1,829 thousand has been received as of December 31, 2019.

(x) Purchase Equipment for Subsidiary

The Company purchased equipment and raw material amounting to $22,473 thousand and $31,463 thousand, respectively, for its subsidiary JMO. The other receivables on December 31, 2019 and 2018 were $22,473 thousand and $31,463 thousand, respectively.

(c) Key management personnel compensation

(i) Key management compensation comprised:

		2019	2018
Short-term employee benefits	$	17,535	12,886
Post-employment benefits		500	289
Share-based payments		2,741	2,660
	$	20,776	15,835

In 2018, the Company provided company cars with carrying value of $1,253 thousand for key management personnel use.

(ii) Guarantee

As of December 31, 2019 and 2018, the main management is the joint guarantors of the long-term and short-term borrowings of the Company.

(8) Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object		December 31, 2019	December 31, 2018
Property, plant and equipment	Long-term loans	$	-	337,771
Property, plant and equipment	Issue secured bonds guarantee		335,833	-
Other non-current asset–reserve account	Short-term and long-term loans		12,001	27,351
Other non-current assets–time deposits	Short-term loans		-	30,869
Other non-current assets–time deposits	Guarantees for issuing secured convertible bonds		65,956	-
		$	413,790	395,991

(9) Significant Commitments and contingencies

(a) Unrecognized contractual commitments:

		December 31, 2019	December 31, 2018
Acquisition of property, plant and equipment	$	14,256	60,165

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(b) Calin Technology Co., Ltd. (Calin) filed a lawsuit to the Taichung District Court against the Company for violating the corporate espionage law due to some of its former employees who are currently working for the Company. The first hearing started in January 2020, and the Company has appointed lawyers to defend its rights to ensure the goodwill of the Company is not infringed. This case is still in progress; hence, it is impossible to reasonably estimate any probable impact.

(10) Losses Due to Major Disasters: None

(11) Subsequent Events:

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the subsidiaries operating environment in China and has impacted the subsidiary' s operations position, including production and delivery delays, etc. The relevant information is still unclear. Therefore it is not possible to make any reasonable estimate of the economic impact on its business results and financial situations. Therefore, the Company will continue to closely monitor the development of the event and keep its contingency measures and adjustments as needed.

(12) Other

(a) A summary of current-period employee benefits, depreciation, and amortization, by function, is as follows:

By function / By item	2019			2018		
	Cost of Sales	**Operating Expense**	**Total**	**Cost of Sales**	**Operating Expense**	**Total**
Employee benefits						
Salary	161,507	87,870	249,377	119,564	74,480	194,044
Labor and health insurance	13,467	7,268	20,735	9,089	5,733	14,822
Pension	5,045	3,739	8,784	3,901	3,199	7,100
Remuneration of directors	-	4,451	4,451	-	4,517	4,517
Others	8,258	3,435	11,693	6,406	4,546	10,952
Depreciation	100,606	5,315	105,921	44,965	9,378	54,343
Amortization	403	3,114	3,517	35	2,435	2,470

Additional information on the number of employees and employee benefit in the Company in 2019 and 2018 were as follows:

	2019	2018
The number of employees	347	277
The number of directors (non-employees)	5	5
Average employee benefits	$ 850	834
Average salary	$ 729	713
Average adjustment of salary	2.24 %	

(Continued)

(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Company:

(i) Loans to other parties:

(Unit: Thousand dollars)

Number	Name of lender	Name of borrower	Account name	Related party	Highest balance of financing to other parties during the period	Ending balance	Actual usage amount during the period	Range of interest rates during the period	Purposes of fund financing for the borrower	Transaction amount for business between two parties	Reasons for short-term financing	Loss allowance	Collateral		Individual funding loan limits	Maximum limit of fund financing
													Item	Value		
0	The Company	JMO	Other receivables	Y	149,900 (USD5,000)	59,960 (USD2,000)	59,960 (USD2,000)	3.5%~4.75%	Business dealings	342,139		-		-	732,153	732,153
2	JMO	JMOL	Other receivables	Y	148,523 (CNY34,500)	129,150 (CNY30,000)	129,150 (CNY30,000)	3.5~4.75%	Short-term financing	-	Short-term funding needs	-		-	384,547	384,547

Note 1: According to the Company's "procedures for providing loans to other parties", if foreign companies whose 100% of the voting shares directly or indirectly owned by the Company have needs for business transactions or short-term financing, the total and individual amount of lending cannot exceed 40% of the Company's net worth.

Note 2: According to the JMO's "procedures for providing loans to other parties", if foreign companies whose 100% of the voting shares directly or indirectly owned by the Company has needs for business transactions or short-term financing, the total and individual amount of lending cannot exceed 60% of the Company's net worth.

Note 3: The amounts were translated into New Taiwan Dollars at the exchange rates at the ending date of the reporting period.

(ii) Guarantees and endorsements for other parties: None

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures): None

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

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

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

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD$300 million or 20% of the capital stock:

(Unit: Thousand dollars)

Name of company	Related party	Nature of relationship	Transaction details				Transactions with terms different from others		Notes/Accounts receivable (payable)		Note
			Purchase/ Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	
The Company	JMO	Subsidiaries	Sales	(342,139)	(38) %	150 days	No general price can be compared	No significant difference from the normal customer	223,293	58%	
〃	〃	〃	Purchases	190,714	62 %	60 days	〃	〃	(19,864)	(54)%	
JMO	The Company	Parent	Purchases	342,139	88 %	150 days	〃	〃	(223,293)	(78)%	
〃	〃	〃	Sales	(190,714)	(24) %	60 days	〃	〃	19,864	6%	

(Continued)

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(viii) Receivables from related parties with amounts exceeding the lower of TWD$100 million or 20% of the capital stock:

(Unit: Thousand dollars)

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue (Note)		Amounts received in subsequent period	Loss allowance	Note
					Amount	Action taken			
The Company	JMO	Subsidiaries	223,293	1.90	-		79,538	-	Note 1
JMO	JMOL	Second-tier sbsidiary	129,150	-	-		-	-	Note 2

Note 1: Information as of February 29, 2020.
Note 2: The subsidiary lent funds to second-tier subsidiary.

(ix) Trading in derivative instruments: None

(b) Information on investees:

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

(Unit: Thousand dollars)

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019			Net income (losses) of investee	Share of profits/losses of investee (note)	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
The Company	CHENG TIAN	Samoa	General investment	359,760 (USD12,000)	272,338 (USD9,084)	12,000	100.00 %	600,078	144,785	145,010	
〃	ETERGE	Taiwan	Production and sales of optical components and electronic imaging products	48,100	32,700	3,700	74.00 %	59,734	826	(251)	

Note : The amounts shown in the table were translated into New Taiwan Dollars at the exchange rates at the end of the reporting period or the average rate of the year of 2019.

(c) Information on investment in Mainland China:

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

(Unit: Thousand dollars)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
JMO	Manufacture and sales of optical molds and products	344,400 (CNY80,000)	Note 1	271,859 (USD9,068)	88,951 (USD2,955)	-	360,450 (USD12,023)	127,693 (USD4,131)	100.00%	144,787 (USD4,684)	627,901 (USD20,944)	-
JMOL	Assemble digital lens and lens coating	80,000 (CNY20,000)	Note 2	- (Note 2)	-	-	-	(35,945) (CNY(8,044))	100.00%	(35,945) (CNY(8,044))	4,890 (CNY1,136)	-

ZHONG YANG TECHNOLOGY CO., LTD.
Notes to Financial Statements

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019 (Note 4)	Investment Amounts Authorized by Investment Commission, MOEA (Note 4)	Upper Limit on Investment (Note 4)
360,450 (USD 12,023)	495,622 (USD 7,916) (CNY 60,000)	1,098,229

Note 1: Indirect investment in Mainland China through companies registered in a third region.
Note 2: Indirect investment in Mainland China through an existing company in Mainland China.
Note 3: The gains and losses on investment of the companies were recognized according to the investees' financial statements which had been reasonably audited by the certified public accountants of the parent company.
Note 4: The amounts shown in the table were translated into New Taiwan Dollars at the exchange rates at the end of the reporting period or the average rate of the year of 2019.

(iii) Significant transactions:

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

(14) Segment information:

Please refer to the consolidated financial report of 2019.

ZHONG YANG TECHNOLOGY CO., LTD.

Statement of cash and cash equivalents

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Cash on hand and petty cash	New Taiwan Dollars and foreign currency	$ 114
Checking accounts		807
Demand deposits	New Taiwan Dollars	414,959
	Foreign currency (USD 4,353 thousand,	
	JPY 8,030 thousand and others)	132,734
		548,500
Time deposits	Foreign currency (USD 2,000 thousand)	
	(Maturity dates 2020.01.28)	59,960
		$ 608,574

Note: The exchange rate is 29.98 New Taiwan Dollars for 1 US dollar; 0.276 New Taiwan Dollars for 1 JPY dollar.

ZHONG YANG TECHNOLOGY CO., LTD.

Statement of notes and accounts receivables—
non-related parties

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Client Name	Discription	Amount
Notes receivable		
Others (Note)	Operating revenue of non-related parties	
		$ 1
Accounts receivable		
L Company	〃	40,149
D Company	〃	38,077
G Company	〃	23,977
O Company	〃	12,651
A Company	〃	12,455
P Company	〃	10,306
Others (Note)	〃	14,944
		152,559
Less: Loss allowance		(10,645)
		141,914
Total		$ **141,915**

Note: The amount of individual client included in others does not exceed 5% of the account balance.

ZHONG YANG TECHNOLOGY CO., LTD.

Statement of other receivables

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Please refer to Note 6(c).

Statement of inventories

Item	Cost	Net realizable value
Finished goods	$ 25,227	45,595
Work in process	98,540	151,766
Raw mateials	21,150	25,749
	$ 144,917	223,110

Statement of changes in property, plant and equipment

For the year ended December 31, 2019

Please refer to Note 6(f).

Zhong Yang Technology Co., LTD.

Statement of changes in investments accounted for using the equity method

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

	Beginning Balance		Increase (Note 1)		Decrease						Ending Balance				
Name of Investee	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Share of profit (loss) Recognized method	Exchange differences on translation of foreign financial statement	Unrealized gains sale	Changes in ownership interest (Note 2)	Number of Shares	Percentage of ownership	Amount	Market price or Net value	Collaterals or pledged assets
CHENG TIAN	9,084	$ 443,204	2,916	90,163	-	-	145,010	-	-	-	12,000	100 %	678,377	628,905	None
Exchange differences on translation of foreign financial statements	-	(21,495)	-	-	-	-	-	(26,459)	-	-	-	- %	(47,954)	-	〃
Unrealized gains	-	(25,835)	-	-	-	-	-	-	(4,510)	-	-	- %	(30,345)	-	〃
Subtotal	-	395,874	-	90,163	-	-	145,010	(26,459)	(4,510)	-	-	- %	600,078	-	
ETERGE	3,000	33,513	700	15,400	-	-	(251)	-	-	11,072	3,700	74.00 %	59,734	57,093	
		$ 429,387		105,563		-	144,759	(26,459)	(4,510)	11,072			659,812		

Note 1: The increase in the current period included the participation of the capital increased by cash of subsidiaries amounting to $105,563 thousand.

Note 2: Changes in the ownership interests in investments accounted for using the equity method amounted to $11,072 thousand.

Zhong Yang Technology Co., LTD.

Statement of short-term borrowings

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Creditor	Description	Contract Period	Interest Rate	Loan Commitment	Collaterals or pledged assets	Ending Balance
CTBC Bank	Secured Loans	2019.01~2020.01	1.20 %	$ 80,000	Reserved Account	80,000
Taipei Fubon Bank	Credit Loans	2019.03~2020.03	1.48 %	60,000	None	60,000
Hua Nan Bank	Credit Loans	2019.09~2020.09	1.20 %	30,000	None	30,000
Citi Bank	Credit Loans	2019.03~2020.03	1.11 %	90,000	None	90,000
Chang Hwa Bank	Credit Loans	2019.06~2020.05	1.40 %	30,000	None	30,000
DBS Bank	Credit Loans	2019.08~2020.07	1.20 %	90,000	None	40,000
Bank SinoPac	Credit Loans	2019.08.~2020.07	1.00 %	80,000	None	80,000
Far Eastern Bank	Credit Loans	2019.03~2020.03	1.18 %	50,000	None	50,000
Taishin Bank	Credit Loans	2019.10~2020.09	1.20 %	150,000	None	50,000
				$ 660,000		510,000

Statement of other payables

Item	Discription	Amount
Accrued payroll and bonuses	Wages and salaries expenses of December 2019 and estimated year-end bonuses of 2019	$ 50,572
Payables on machinery and equipment	Payables for purchasing machinery and equipment	10,780
Others (Note)	Labor and health insurances, travel expenses	53,758
		$ 115,110

Note: The amount of individual item (included in others) does not exceed 5% of the account balance.

Zhong Yang Technology Co., LTD.

Statement of long-term borrowings

December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Creditor	Loan Commitment	Amount: Loan within one year	Amount: More than one year	Contract Period	Interest Rate	Amount	Collaterals or pledged assets
Bank SinoPac	$ 200,000	-	30,180	2019.07~2024.09	1.00 %	30,180	None
Chang Hwa Bank	360,000	-	30,000	2019.08~2024.09	0.70 %	30,000	None
JihSun Bank	100,000	75,000	18,750	2018.08~2021.06	1.45 %	93,750	None
	$ 660,000	75,000	78,930			153,930	

Statement of other non-current liabilities

Please refer to Note 6(s).

Statement of operating revenue

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Quantity	Amount
Mold, Mold Base, Core	255 (set) and 42,367(piece)	$ 662,762
Mobile Phone Lens and Lens	11,474,242 (slice)	74,013
Others		153,373
		$ 890,148

ZHONG YANG TECHNOLOGY CO., LTD.

Statement of operating expenses

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Commodity inventory, beginning of the year	$ 28,332
Add: Purchases	194,263
Less: Commodity inventory, end of the year	(20,447)
Commodity inventory used and others	(622)
Cost of sales from purchasing	201,526
Raw materials, beginning of the year	15,273
Add: Purchases of raw materials	74,248
Less: Raw materials, end of the year	(25,745)
Sales of costs of raw materials	(1,482)
Raw materials used and others	(16,635)
Raw materials used for the current period	45,659
Direct labor	142,591
Manufacturing expenses	312,221
Costs of goods manufacturered for the current period	500,471
Add: Work-in-process, beginning of the year	169,285
Purchase of work-in-process	39,359
Less: Work-in process, end of the year	(180,928)
Work-in-process used and others	(84,040)
Sales of costs of work-in-process	(264,794)
Work-in-process scrapped	(4,294)
Cost of goods manufactured	175,059
Add: Finished goods, beginning of the year	12,640
Purchase of finished goods	1,052
Less: Finished goods, end of the year	(7,055)
Finished goods used and others	(43,628)
Sales of costs of finished goods	138,068
Sales of costs of raw materials and work-in-process	266,276
Allowance for inventory obsolescene	28,851
Inventory Scrapped	4,294
Others	13,365
Total operating costs	$ **652,380**

ZHONG YANG TECHNOLOGY CO., LTD.

Statement of operating costs expenses

For the year ended December 31, 2019

(Expressed in thousands of New Taiwan Dollars)

Item	Selling Expenses	Administrative Expenses	Research and Development Expenses
Payroll expenses	$ 4,111	47,772	35,987
Sample expenses	8,065	-	-
Depreciation expenses	393	4,574	348
Commission expense	7,750	-	-
Professional service fees	-	5,244	292
Inspection fees	-	-	57,647
Others (Note)	9,114	30,859	37,567
	$ 29,433	88,449	131,841

Note: The amount of individual item included in other does not exceed 5% of the account balance.