Stock Code:6668

ZHONG YANG TECHNOLOGY CO., LTD.
AND SUBSIDIARIES

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

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Table of contents

Representation Letter

The entities that are required to be included in the combined financial statements of Zhong Yang Technology Co., Ltd. as of and for the year ended December 31, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Zhong Yang Technology Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Zhong Yang Technology Co., Ltd.
Chairman: Cheng-Tien Cheng
Date: March 17, 2020

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Independent Auditors' Report

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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 consolidated 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 consolidated 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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In our judgement, 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(n) and note 4(s) for accounting policy related of revenue and the classification of revenue, respectively.

   Description of key audit matter:

   The Group 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 consolidated 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.

Other Matter

The Group has prepared its parent-company-only financial statements as of and for the years ended December 31, 2019 and 2018, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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 consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' audit report and the accompanying consolidated 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 consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

	Assets	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 773,501	22	298,864	11
1170	Notes and accounts receivable, net (notes 6(b) and (s))	587,256	16	414,634	16
1180	Accounts receivable, due from related parties (notes 6(b) and (s) and 7)	17,864	1	16,701	1
1200	Other receivables (notes 6(c) and 7)	10,340	-	1,511	-
1310	Inventories (note 6(d))	311,237	9	256,911	10
1410	Prepayments and other current assets	42,699	1	57,794	2
		1,742,897	49	1,046,415	40
	Non-current assets:				
1600	Property, plant and equipment (notes 6(g) and 8)	1,533,745	43	1,403,884	54
1755	Right-of-use assets (notes 6(h) and 7))	87,944	2	-	-
1780	Intangible assets (note 6(e))	15,631	-	15,130	1
1840	Deferred tax assets (note 6(o))	43,043	1	28,109	1
1900	Other non-current assets (note 8)	155,670	5	101,365	4
		1,836,033	51	1,548,488	60
	Total assets	$ 3,578,930	100	2,594,903	100

	Liabilities and Equity	December 31, 2019 Amount	%	December 31, 2018 Amount	%
	Current liabilities:				
2100	Short-term borrowings (note 6(i))	$ 599,940	17	250,572	10
2130	Current contract liabilities (notes 6(s) and 7)	81,236	2	48,966	2
2170	Notes and accounts payable	140,903	4	109,130	4
2200	Other payables (note 6(k))	215,867	6	210,081	8
2230	Current tax liabilities	12,484	-	15,996	1
2280	Current lease liabilities (notes 6(l) and 7)	13,512	1	-	-
2300	Other current liabilities	6,381	-	2,874	-
2320	Long-term borrowings, current portion (note 6(j))	75,000	2	7,560	-
		1,145,323	32	645,179	25
	Non-Current liabilities:				
2540	Long-term borrowings (note 6(j))	78,930	2	142,440	5
2570	Deferred tax liabilities (note 6(o))	24,861	1	26,083	1
2580	Non-current lease liabilities (notes 6(l) and 7)	75,374	2	-	-
2600	Other non-current liabilities (note 6(u))	404,000	11	-	-
		583,165	16	168,523	6
	Total liabilities	1,728,488	48	813,702	31
	Equity (note 6(p)):				
3110	Ordinary shares	683,923	19	684,365	27
3200	Capital surplus	820,356	23	808,259	31
3310	Legal reserve	53,573	1	39,565	2
3320	Special reserve	17,196	1	9,715	-
3350	Unappropriated retained earnings	301,051	8	271,872	10
3490	Other equity	(45,717)	(1)	(32,575)	(1)
	Equity attributable to the parent company:	1,830,382	51	1,781,201	69
36XX	Non-controlling interests	20,060	1	-	-
	Total equity	1,850,442	52	1,781,201	69
	Total liabilities and equity	$ 3,578,930	100	2,594,903	100

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars , Except for Earnings Per Share)

		2019		2018	
		Amount	%	Amount	%
4100	**Operating revenues (note 6 (s) and 7)**	$ 1,392,749	100	1,195,833	100
5000	**Operating costs (notes 6(d), 7 and 12)**	854,857	61	712,578	60
5900	**Gross profit from operations**	537,892	39	483,255	40
	Operating expenses (notes 7 and 12)				
6100	Selling expenses	69,844	5	41,380	3
6200	Administrative expenses	127,955	9	130,695	11
6300	Research and development expenses	170,773	12	91,442	7
6450	Impairment loss (impairment gain and reversal of impairment loss) (note 6(b))	6,215	1	21,753	2
		374,787	27	285,270	23
6900	**Net operating income**	163,105	12	197,985	17
	Non-operating income and expenses:				
7100	Interest revenue	4,565	-	2,907	-
7230	Foreign exchange gains (losses), net (note 6 (v))	(24,936)	(1)	4,510	1
7050	Interest expense (note 7)	(10,999)	(1)	(7,630)	(1)
7590	Other gains (losses), net (note 7)	5,862	-	2,007	-
		(25,508)	(2)	1,794	-
7900	**Profit before income tax**	137,597	10	199,779	17
7950	Less: income tax expenses (note 6(o))	17,435	1	59,700	5
8200	**Profit**	120,162	9	140,079	12
8300	**Other comprehensive income:**				
8360	**Items that may be reclassified subsequently to profit or loss**				
8361	Exchange differences on translation	(26,459)	(2)	(9,790)	(1)
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(o))	(5,292)	-	(2,309)	-
		(21,167)	(2)	(7,481)	(1)
8300	**Other comprehensive income**	(21,167)	(2)	(7,481)	(1)
8500	**Comprehensive income**	$ **98,995**	**7**	**132,598**	**11**
	Profit attributable to:				
8610	Owners of parent	$ 119,085	9	140,079	12
8620	Non-controlling interests	1,077	-	-	-
		$ **120,162**	**9**	**140,079**	**12**
	Comprehensive income attributable to:				
8710	Owners of parent	$ 97,918	7	132,598	11
8720	Non-controlling interests	1,077	-	-	-
		$ **98,995**	**7**	**132,598**	**11**
	Earnings per common share (note 6 (r))				
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 consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of parent									
	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 attributable to owners of parent	Non-controlling interests	Total equity
Balance at January 1, 2018	$ 600,415	387,434	15,286	-	285,870	(9,715)	-	1,279,290	-	1,279,290
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	24,279	-	(24,279)	-	-	-	-	-
Special reserve	-	-	-	9,715	(9,715)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(120,083)	-	-	(120,083)	-	(120,083)
	-	-	24,279	9,715	(154,077)	-	-	(120,083)		(120,083)
Profit for the year ended December 31, 2018	-	-	-	-	140,079	-	-	140,079	-	140,079
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	-	(7,481)	-	(7,481)	-	(7,481)
Comprehensive income for the year ended December 31, 2018	-	-	-	-	140,079	(7,481)	-	132,598	-	132,598
Capital increased by cash	80,000	381,238	-	-	-	-	-	461,238	-	461,238
Changes in ownership interests in subsidiaries	-	694	-	-	-	-	-	694	-	694
Share-based payments transaction	3,950	38,893	-	-	-	-	(15,379)	27,464	-	27,464
Balance at December 31, 2018	684,365	808,259	39,565	9,715	271,872	(17,196)	(15,379)	1,781,201	-	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)	-	(68,417)
	-	-	14,008	7,481	(89,906)	-	-	(68,417)		(68,417)
Profit for the year ended December 31, 2019	-	-	-	-	119,085	-	-	119,085	1,077	120,162
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	-	(21,167)	-	(21,167)	-	(21,167)
Comprehensive income for the year ended December 31, 2019	-	-	-	-	119,085	(21,167)	-	97,918	1,077	98,995
Changes in ownership interests in subsidiaries	-	11,072	-	-	-	-	-	11,072	(9,617)	1,455
Changes in non-controlling interests	-	-	-	-	-	-	-	-	28,600	28,600
Share-based payments transaction	(442)	1,025	-	-	-	-	8,025	8,608	-	8,608
Balance at December 31, 2019	$ 683,923	820,356	53,573	17,196	301,051	(38,363)	(7,354)	1,830,382	20,060	1,850,442

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in thousands of New Taiwan Dollars)

	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	$ 137,597	199,779
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	191,315	113,347
Amortization expense	4,945	3,491
Expected credit loss (gain)	6,215	21,753
Interest expense	10,999	7,630
Interest income	(4,565)	(2,907)
Share-based payment transactions	11,610	14,333
Loss (gain) on disposal of property, plant and equipment	(522)	(1,580)
Others	1,978	1,616
Total adjustments to reconcile profit (loss)	221,975	157,683
Changes in operating assets and liabilities:		
Increase in notes and accounts receivable	(179,013)	(94,154)
Decrease (increase) in other receivables	(8,852)	2,415
Increase in inventories	(54,326)	(77,324)
Decrease (increase) in prepayments and other current assets	15,095	(33,467)
Decrease (increase) in other non-current assets	1,124	(921)
Increase (decrease) in contract liabilities	32,270	(8,598)
Increase in notes and accounts payable (including related parties)	31,773	13,544
Increase in other payables	31,164	34,678
Increase (decrease) in other current liabilities	3,507	(959)
Total changes in operating assets and liabilities	(127,258)	(164,786)
Total adjustments	94,717	(7,103)
Cash flows from (used in) operations	232,314	192,676
Interest received	4,588	2,739
Interest paid	(10,446)	(7,652)
Income taxes paid	(36,866)	(85,345)
Net cash flows from (used in) operating activities	189,590	102,418
Cash flows from (used in) investing activities:		
Acquisition of investments accounted for using equity method (deducting the cash acquired)	-	(7,295)
Acquisition of property, plant and equipment	(362,530)	(548,847)
Proceeds from disposal of property, plant and equipment	14,666	11,681
Increase (decrease) in refundable deposits	173	(3,084)
Acquisition of intangible assets	(4,554)	(7,879)
Increase (decrease) in prepayments of property, plant and equipment	(43,378)	(38,427)
Increase in restricted assets	(19,737)	(25,293)
Net cash flows from (used in) investing activities	(415,360)	(619,144)
Cash flows from (used in) financing activities:		
Increase in short-term borrowings	349,368	250,572
Increase in long-term borrowings	110,180	100,000
Repayments of long-term borrowings	(106,250)	(150,000)
Payment of lease liabilities	(11,712)	-
Cash dividends paid	(68,417)	(120,083)
Capital increased by cash	-	461,238
Restricted stocks cancellation	(1,547)	-
Advances from issuance of convertible bonds	404,000	-
Changes in non-controlling interests	28,600	-
Other financing activities	-	13,642
Net cash flows from (used in) financing activities	704,222	555,369
Effect of exchange rate changes on cash and cash equivalents	(3,815)	(1,663)
Net increase (decrease) in cash and cash equivalents	474,637	36,980
Cash and cash equivalents at beginning of period	298,864	261,884
Cash and cash equivalents at end of period	$ 773,501	298,864

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese.)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

(expressed in thousands of New Taiwan Dollars 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 and subsidiaries (together referred to as the " Group" and individually as " Group entities") 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 consolidated financial statements

These consolidated 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 Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated 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 Group 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 Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(k).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group 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 Group 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 Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group 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 Group'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 Group 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 Group recognised both additional $41,433 thousands of right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 4.30%.

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 Group's consolidated financial statements	$ 48,933
Recognition exemption for:	
short-term leases	(3,256)
leases of low-value assets	(55)
Lease liabilities recognized as at December 31, 2018	$ 45,622
Discounted using the incremental borrowing rate at January 1, 2019 (Lease liabilities recognized at January 1, 2019)	$ 41,433

(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 Group 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 Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated 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 Group is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies

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

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C.

(b) Basis of preparation

(i) Basic of measurement

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

(ii) Functional and presentation currency

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The consolidated 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) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

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

(ii) List of subsidiaries in the consolidated financial statements

List of subsidiaries in the consolidated financial statements:

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2019	Shareholding December 31, 2018	Note
The Company	CHENG TIAN PHOTOELECTRIC TECHNOLOGY (CHENG TIAN)	General investing	100%	100%	
The Company	ETERGE OPTO-ELECTRONICS CO., LTD. (ETERGE)	Manufacture and sales of optical lens	74%	100%	Note
CHENG TIAN	DONGGUAN JMO OPTICAL CO., LTD. (JMO)	Manufacture and sales of optical molds and products	100%	100%	
JMO	DONGGUAN CITY JMOL OPTICS CO. LTD. (JMOL)	Assemble digital lens and lens coating	100%	100%	

Note : The Company held 100% of ETERGE'S shares in February 2018. After ETERGE made a capital increase in June 2019, the percentage of ownership decreased to 74%.

(d) Business combination

The Group 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 Group 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 is recognized as expenses immediately when incurred, except for the issuance of debt or equity instruments.

(e) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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 Group 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 Group 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.

(f) 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;

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

(Continued)

(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.

(g) 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.

(h) Financial instruments

(i) Financial assets

Financial assets are classified into the measured at amortized cost.

The Group 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.

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 Group 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 Group 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-months ECLs are the portion of ECLs that result from default events that are possible within the 12 month 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 Group 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 Group 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 Group's historical experience and informed credit assessment as well as forward-looking information.

The Group 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'.

(Continued)

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

The Group 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 Group 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 Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group 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 Group 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 Group'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 Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Group 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 Group 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 Group 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 Group 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 Group presents financial assets and liabilities on a net basis when the Group 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.

(i) 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.

(j) 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 Group. 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	1～10years
3)	Office equipment and other facilities	1～10 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.

(k) Lease

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Group 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 Group 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 Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

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

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

- 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 Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Group 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 Group's incremental borrowing rate. Generally, the Group 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 Group'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 assets, 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 Group 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 Group 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 Group 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 less and leases of low-value assets. The Group 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 Group 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 Group's balance sheets.

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.

(Continued)

(l) 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.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group 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.

(Continued)

(v) Amortization

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

Except for goodwill with indefinite useful lives, 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.

(m) Impairment of non-financial assets

The carrying amounts of the Group'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 Group 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.

(n) Recognition of revenue

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

(i) Sale of goods

The Group manufactures optical molds and products and sell them to manufacturers. The Group 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 Group 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 point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Group 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 Group does not adjust any of the transaction prices for the time value of money.

(o) 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.

(p) 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.

(q) 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 5% 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.

(r) Earnings per share

The Group 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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Each operating segment consists of standalone financial information.

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

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

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and petty cash	$ 229	271
Checking accounts and demand deposits	709,312	237,163
Time deposits	63,960	61,430
	$ **773,501**	**298,864**

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

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

	December 31, 2019	December 31, 2018
Notes receivable	$ 98,060	52,675
Accounts receivable	546,233	414,167
Less: allowance for doubtful accounts	(39,173)	(35,507)
	$ 605,120	431,335
Notes and accounts receivable, net	$ 587,256	414,634
Accounts receivable-related parties, net	$ 17,864	16,701

The Group 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 was determined as follows:

	December 31, 2019		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 499,084	0%	-
1 to 30 days past due	56,904	10.1%	5,775
31 to 90 days past due	42,509	15.7%	6,667
91 to 180 days past due	15,466	30.6%	4,734
181 to 270 days past due	15,725	50.5%	7,938
271 to 360 days past due	7,167	92.4%	6,621
More than 361 days past due	7,438	100%	7,438
	$ 644,293		39,173

	December 31, 2018		
	Gross carrying amount	Weighted-average loss rate	Loss allowance provision
Current	$ 314,720	0%	-
1 to 30 days past due	39,604	8.7%	3,448
31 to 90 days past due	66,780	14.8%	9,856
91 to 180 days past due	35,411	33.9%	12,021
181 to 270 days past due	2,907	100%	2,907
271 to 360 days past due	7,420	98%	7,275
	$ 466,842		35,507

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

	2019	2018
Balance on January 1	$ 35,507	14,148
Impairment losses recognized (reversed)	6,215	21,753
Amount written off	(1,562)	-
Foreign exchange gains (losses)	(987)	(394)
Balance on December 31	$ **39,173**	**35,507**

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

(c) Other receivables

	December 31, 2019	December 31, 2018
Other receivables	$ 20,340	11,511
Less: Loss allowance	(10,000)	(10,000)
	$ **10,340**	**1,511**

On August 10, 2016, the Group 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 Group 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 Group 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 Group lost the lawsuit. The Group refused to accept the result and to raised the appeal. The Group assessed the possibility of recovery based on conservative principles and decided to propose impairment losses for all unreceived amount.

On July 31, 2019 the Group 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 Group did not provide any other receivables as collateral.

(d) Inventories

	December 31, 2019	December 31, 2018
Finished goods	$ 113,506	68,498
Work in progress (including external warehouse)	146,031	150,925
Raw materials	51,700	37,488
	$ **311,237**	**256,911**

In 2019, the cost of good sold and expense of inventories amounted to$854,857 thousand (2018: $712,578 thousand). In 2019, the write-down of inventories amounted to $52,798 thousand (2018: $34,112 thousand).

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

(e) Acquisition of subsidiary

A resolution of obtaining 100% equity of ETERGE was approved by the Board of Directors on November 22, 2017. ETERGE is a company whose business activities are designing and manufacturing optical lens. The Group signed a share sale and purchase agreement with its original shareholders of ETERGE on February 23, 2018, acquiring 100% of equity at $11.5 per share and in total of 1,800 thousand shares. The total price was $20,700 thousand. The aforementioned price and shares have been paid and delivered.

Since February 28, 2018 the Group obtained 100% equity of ETERGE. The sales revenue and net profit contributed by ETERGE were $95,367 thousand and $119 thousand, respectively. If the transaction occurred on January 1, 2018, the management estimated that the income and the net profit of the Group in 2018 may reach to $117,254 thousand and $759 thousand, respectively. In determining the amounts, the management assumed that the transaction occurred on January 1, 2018, and the provisional fair value adjustments arising from the acquisition date were the same.

The major categories of transfer considerations, the assets acquired and the liabilities assumed on the acquisition date and the amounts of recognized goodwill were as follows:

(i) Consideration transferred

Cash	$	**20,700**

(ii) Assets acquired and liabilities assumed

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

Cash and cash equivalents	$	13,405
Notes and accounts receivable, net		23,989
Other receivables		203
Inventories		4,354
Prepayments and other current assets		1,020
Property, plant and equipment		5,025
Other non-current assets		1,628
Accounts payable		(26,363)
Current contract liabilities		(1,713)
Other payables		(3,219)
Current tax liabilities		(160)
Other current liabilities		(107)
Deferred tax liabilities		(3)
	$	**18,059**

(iii) Goodwill arising from the acquisition has been recognized as follows:

Consideration transferred	$	20,700
Less: Fair value of identifiable net assets		(18,059)
	$	**2,641**

The goodwill is mainly derived from the operating value of the ETERGE in the optical lens market, which is expected to be synergistic by the integration of the ETERGE and the Group.

(f) Changes in a parent's ownership interest in a subsidiary

Eterge issued new shares by cash in June 2019, wherein the Group invested unproportionally to its previous percentage of ownership, resulting in its shareholding in Eterge to decrease from 100% to 74%. The difference from the change in percentage of ownership was reflected by increasing the capital surplus – changes in ownership interests in subsidiaries by $9,843.

(g) Property, plant and equipment

The cost and depreciation of the property, plant and equipment of the Group 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	820,064	94,529	190,388	1,612,113
Additions	-	5,437	277,924	24,887	28,351	336,599
Disposals	-	-	(18,345)	(3,132)	(217)	(21,694)
Transformations	-	11,014	179,413	4,117	(190,128)	4,416
Effect of movement in exchange rates	-	-	(21,783)	(3,420)	(365)	(25,568)
Balance on December 31, 2019	$ **268,000**	**255,583**	**1,237,273**	**116,981**	**28,029**	**1,905,866**
Balance on January 1, 2018	$ 268,000	123,369	466,722	53,699	129,745	1,041,535
Acquisition from share	-	-	5,356	952	-	6,308
Additions	-	84,618	273,765	39,999	174,519	572,901
Disposals	-	-	(13,833)	(6,468)	-	(20,301)
Transformations	-	31,145	96,420	7,749	(112,692)	22,622
Effect of movement in exchange rates	-	-	(8,366)	(1,402)	(1,184)	(10,952)
Balance on December 31, 2018	$ **268,000**	**239,132**	**820,064**	**94,529**	**190,388**	**1,612,113**
Depreciation and impairments loss:						
Balance on January 1, 2019	$ -	19,422	160,644	28,163	-	208,229
Depreciation	-	28,185	129,579	20,772	-	178,536
Disposals	-	-	(4,493)	(3,057)	-	(7,550)
Effect of movement in exchange rates	-	-	(5,758)	(1,336)	-	(7,094)
Balance on December 31, 2019	$ **-**	**47,607**	**279,972**	**44,542**	**-**	**372,121**

	Land	Buildings and structures	Machinery and equipment	Office equipment and other facilities	Construction in progress and testing equip	Total
Balance on January 1, 2018	$ -	3,279	84,764	18,333	-	106,376
Acquisition from share	-	-	1,038	245	-	1,283
Depreciation	-	16,143	81,192	16,012	-	113,347
Disposals	-	-	(4,337)	(5,863)	-	(10,200)
Transformations	-	-	-	(91)	-	(91)
Effect of movement in exchange rates	-	-	(2,013)	(473)	-	(2,486)
Balance on December 31, 2018	$ -	19,422	160,644	28,163	-	208,229
Carrying amounts:						
Balance on December 31, 2019	$ 268,000	207,976	957,301	72,439	28,029	1,533,745
Balance on December 31, 2018	$ 268,000	219,710	659,420	66,366	190,388	1,403,884

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

(h) Right-of-use assets

The Group leases many assets including offices, factor facilities, machinery and warehouses. Information about leases for which the Group as a lessee is presented below:

	Buildings	Machinery	Total
The cost of right-of-use assets:			
Balance on January 1, 2019	$ -	-	-
Adjustment on initial application of IFRS 16	35,229	6,204	41,433
Additions	69,715	-	69,715
Disposal	(9,765)	(2,948)	(12,713)
Effect of movements in exchange rates	(1,350)	(124)	(1,474)
Balance on December 31, 2019	$ 93,829	3,132	96,961
Depreciation and impairment loss:			
Balance on January 1, 2019	$ -	-	-
Adjustment on initial application of IFRS 16	-	-	-
Depreciation for the period	8,678	4,101	12,779
Disposal	(1,775)	(1,663)	(3,438)
Effect of movements in exchange rates	(235)	(89)	(324)
Balance on December 31, 2019	$ 6,668	2,349	9,017
Carrying amount:			
Balance on December 31, 2019	$ 87,161	783	87,944

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

(i) Short-term borrowings

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

	December 31, 2019	December 31, 2018
Unsecured bank loans	$ 519,940	221,572
Secured bank loans	80,000	29,000
Total	$ **599,940**	**250,572**
Unused short-term credit lines	$ **500,000**	**750,293**
Range of interest rates	**1%~4%**	**1.19%~5.5%**

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

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

(j) Long-term borrowings

The conditions of long-term borrowings of the Group 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	$ **519,820**	**-**
Range of interest rates	**0.7%~1.6%**	**1.55%~1.65%**
Expiration date	**109.1~113.9**	**108.1~121.1**

(i) In order to set up the operation headquarter and to purchase equipment for production, the Group 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 Group had used the full credit amount. The Group 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 advance in 2019.

(ii) In order to purchase equipment for expanding the Group's operation, the Group 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 and used the credit amount of $50,000 thousand (not allowed to be used cyclically), with maturity in June 2021. The Group had used the full credit amount of $150,000 thousand. The Group 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 Group's operation and meet the needs of medium-term working capital, the Group 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 Group had used the credit amount of $30,180 thousand.

(iv) In order to purchase equipment for expanding the Group's operation and meet the needs of medium-term working capital, the Group 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 Group had used the credit amount of $30,000 thousand.

(v) The main management of the Group 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.

(k) Other payables

	December 31, 2019	December 31, 2018
Equipments payable	$ 20,740	46,671
Employee and directors compensation payable	12,500	7,300
Salaries and bonus payable	78,659	61,107
Accrued expenses and other payables	103,968	95,003
	$ 215,867	210,081

(l) Lease liabilities

	December 31, 2019
Current	$ 13,512
Non-current	$ 75,374

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

	2019
Interest on lease liabilities	$ 1,777
Expenses relating to short-term leases or low-value leases	$ 8,242

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

		2019
Total cash outflow for leases	$	21,731

(i) Real estate leases

The Group leases buildings for its office and factory. The leases of office space typically run for a period of 3 ~10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

(ii) Other leases

The Group leases vehicles and equipment, with lease terms of 2 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

The Group also leases automobile and office equipment with contract terms of 1 to 2 years. These leases are short-term and leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(m) Operating lease

Non-cancellable operating lease rentals payable were as follows:

		December 31, 2018
Less than one year	$	16,139
Between one and five years		22,219
More than five years		930
	$	39,288

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

For the year ended December 31, 2018, the expenses recognized in profit or loss in respect of the operating leases amounted to $16,600 thousand.

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 to market price, and the Group 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 Group recognized the lease as operating lease.

(n) Employee benefits

The Group 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 Group 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.

The pension costs recognized by the other subsidiaries included in consolidated financial statements for the years ended December 31, 2019 and 2018, were \$8,126 thousand and \$7,975 thousand, respectively.

(o) 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	$	33,820	54,423
Adjustment for prior periods		(5,521)	220
		28,299	54,643
Deferred tax expense			
Adjustment in tax rate		-	816
Change in unrecognized deductible temporary differences		(10,864)	4,241
		(10,864)	5,057
Income tax expense	$	**17,435**	**59,700**

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)**

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	2019	2018
Profit excluding income tax	$ 137,597	199,779
Income tax using the Company's domestic tax rate	36,527	45,731
Adjustment in tax rate	-	816
Current-year losses for which no deferred tax asset was recognized	8,986	3,596
Change in unrecognized temporary differences	(29,002)	(6,412)
Change in provision in prior periods	(5,521)	220
10% surtax on unappropriated earnings	-	8,871
Others	6,445	6,878
	$ 17,435	59,700

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2019	December 31, 2018
The carry forward of unused tax losses-JMOL	$ 20,308	11,322

The Income Tax Law of the People's Republic of China allows net losses, as assessed by the tax authorities, to offset taxable income over a period of five years for local tax reporting purposes.

As of December 31, 2019, the information of JMOL's unused tax losses for which no deferred tax assets were recognized are as follows:

Year of loss	Unused tax loss	Expiry date
2016 (assessed)	$ 2,421	2021
2017 (assessed)	4,790	2022
2018 (assessed)	3,467	2028
2019 (estimated)	8,044	2029
	$ 18,722	

2) 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

3) 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	$ 1,222	24,861	26,083
Recognized in profit or loss	(1,222)	-	(1,222)
Balance at December 31, 2019	$ -	24,861	24,861
Balance at January 1, 2018	$ -	21,132	21,132
Recognized in profit or loss	1,222	3,729	4,951
Balance at December 31, 2018	$ 1,222	24,861	26,083

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

	Unearned gross profits	Exchange differences on translation	Allowance for inventory valuation and obsolescence losses	Others	Total
Deferred Tax Assets:					
Balance at January 1, 2019	$ 6,458	4,299	12,367	4,985	28,109
Recognized in profit or loss	902	-	5,687	3,053	9,642
Recognized in other comprehensive income	-	5,292	-	-	5,292
Balance at December 31, 2019	$ 7,360	9,591	18,054	8,038	43,043
Balance at January 1, 2018	$ 11,906	1,990	3,480	8,542	25,918
Recognized in profit or loss	(5,448)	-	8,887	(3,545)	(106)
Recognized in other comprehensive income	-	2,309	-	-	2,309
Effect of movement in exchange rates	-	-	-	(12)	(12)
Balance at December 31, 2018	$ 6,458	4,299	12,367	4,985	28,109

(iii) Assessment of tax

The Company' s tax returns for the years through 2017 were assessed by the National Tax Administration

(p) 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 and 5 thousand shares of new restricted employee shares in 2019 and 2018, respectively. Please refer to Note 6(q) 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 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(q) 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

(q) 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 Group 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.

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 and ETERGE due to the employee stock options in 2019 and 2018 were $5,619 thousand and $2,776 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 Group 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.

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 Group 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

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

(r) 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

(Continued)

(s) Revenue from contracts with customers

(i) Disaggregation of revenue

		2019	2018
Primary geographical markets			
China	$	863,275	666,354
Korea		341,684	351,253
Taiwan		141,782	154,746
Other countries		46,008	23,480
	$	1,392,749	1,195,833
Primary products:			
Mold (including mold base and core)		973,622	866,567
Other		419,127	329,266
		1,392,749	1,195,833

(ii) Contract balances

		December 31, 2019	December 31, 2018	January 1, 2018
Notes and accounts receivable (including related parties)	$	644,293	466,842	348,699
		(39,173)	(35,507)	(14,148)
Total	$	605,120	431,335	334,551
Contract liabilities (unearned revenue)	$	81,236	48,966	55,851

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 was included in the contract liability balance at the beginning of the period were $45,917 thousand and $54,846 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.

(t) 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.

(u) 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.

(v) 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 Group periodically evaluates financial status of the customers and the possibility of collecting receivables. Besides, the Group 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, 71% and 70%, respectively, of notes and accounts receivable were nine and eleven major customers. Thus, credit risk is significantly centralized.

3) Receivables and debt securities

For credit risk exposure of notes and accounts receivable, 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(h).

(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	$ 599,940	(599,940)	(599,940)	-	-	-
Notes and accounts payable (including related parties)	140,903	(140,903)	(140,903)	-	-	-
Other payables	113,797	(113,797)	(113,797)	-	-	-
Long-term borrowings (including current portion)	153,930	(153,930)	(75,000)	(18,750)	(60,180)	-
Lease liabilities (including current and non-current)	88,886	(96,794)	(15,703)	(14,960)	(33,565)	(32,566)
	$ 1,097,456	**(1,105,364)**	**(945,343)**	**(33,710)**	**(93,745)**	**(32,566)**
December 31, 2018						
Non-derivative financial liabilities						
Short-term borrowings	$ 250,572	(250,572)	(250,572)	-	-	-
Notes and accounts payable (including related parties)	109,130	(109,130)	(109,130)	-	-	-
Other payables (including related parties)	129,266	(129,266)	(129,266)	-	-	-
Long-term borrowings (including current portion)	150,000	(150,000)	(7,560)	(57,560)	(22,680)	(62,200)
	$ 638,968	**(638,968)**	**(496,528)**	**(57,560)**	**(22,680)**	**(62,200)**

Except for some long-term borrowings repaid in advance , the Group 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 Group'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	$ 26,406	USD/TWD = 29.98	791,652	20,824	USD/TWD = 30.715	639,609
USD	$ 1,779	USD/CNY = 6.964	53,334	2,898	USD/CNY = 6.8683	89,012
Financial liabilities						
USD	$ 1,708	USD/TWD = 29.98	51,206	3,541	USD/TWD = 30.715	108,762
USD	$ 13,870	USD/CNY = 6.964	415,823	9,743	USD/CNY = 6.8683	299,256

2) Sensitivity analysis

The Group'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%	$ 37,022	26,542
Weakening of 5%	(37,022)	(26,542)
USD (against the CNY)		
Strengthening of 5%	(18,124)	(10,512)
Weakening of 5%	18,124	10,512

3) Foreign exchange gain and loss on monetary items

Since the Group 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 $(24,936) thousand and $4,510 thousand, respectively.

(iv) Interest rate analysis

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

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

		Book value	
		December 31, 2019	**December 31, 2018**
Instruments with fixed interest rate:			
Financial assets	$	**63,960**	**61,430**
Instruments with variable interest rate:			
Financial assets	$	708,495	236,892
Financial liabilities		(753,870)	(400,572)
	$	**(45,375)**	**(163,680)**

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 Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 1 basis point, the Group' s profit before income tax would have decreased or increased by $113 thousand for the December 31, 2019, and decreased or increased by $409 thousand for the December 31, 2018 with all other variable factors remaining constant. This is mainly due to the Group'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 Group'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	$	773,501	-	-	-	-
Notes and accounts receivable (including related parties)		605,120	-	-	-	-
Other receivables		10,340	-	-	-	-
Restricted assets (recorded as other non-current assets)		77,957	-	-	-	-
Guarantee deposits		4,445	-	-	-	-
Total	$	1,471,363				

	December 31, 2019				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost:					
Short-term borrowings	$ 599,940	-	-	-	-
Notes and accounts payable (including related parties)	140,903	-	-	-	-
Other payables (including related parties)	113,797	-	-	-	-
Long-term borrowings (including current portion)	153,930	-	-	-	-
Lease liabilities (current and non-current)	88,886	-	-	-	-
Total	$ 1,097,456				

	December 31, 2018				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets measured at amortized cost:					
Cash and cash equivalents	$ 298,864	-	-	-	-
Notes and accounts receivable (including related parties)	431,335	-	-	-	-
Other receivables	1,511	-	-	-	-
Restricted assets (recorded as other non-current assets)	58,220	-	-	-	-
Guarantee deposits	4,618	-	-	-	-
Total	$ 794,548				
Financial liabilities measured at amortized cost:					
Short-term borrowings	$ 250,572	-	-	-	-
Notes and accounts payable (including related parties)	109,130	-	-	-	-
Other payables (including related parties)	129,266	-	-	-	-
Long-term borrowings (including current portion)	150,000	-	-	-	-
Total	$ 638,968				

(w) Financial risk management

(i) Overview

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

1) Credit risk

2) Liquidity risk

3) Market risk

The following likewise discusses the Group'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 consolidated financial statements.

(ii) Structure of risk management

The Group'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 Group minimizes the risk exposure through derivative financial instruments. The Board of Directors regulated the use of derivative financial instruments in accordance with the Group'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 Group continue with the review of the amount of the risk exposure in accordance with the Group's policies and the risk management policies and procedures. The Group 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 Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and investments in debt securities.

1) Accounts receivable and other receivables

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

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

The Group 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.

(Continued)

2) Investments

The exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Group 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 Group's policy is to provide financial guarantees only to wholly owned subsidiaries. At December 31, 2019, no other guarantees were outstanding.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group'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 Group'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 Group'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 Group is exposed to currency risk on sales, and purchases that are denominated in a currency other than the respective functional currencies of the Group' 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 Group 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 Group borrows funds with variable interest rates, which has a risk exposure to changes in interest rates.

3) Other market price risk

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

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(x) Capital management

The Group 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 Group is to ensure that the Group has sufficient and necessary financial resources to support the working capital needs, capital expenditures, expenditures on research and development, dividend payments, and other businesses within the next 12 months.

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

The Group 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:

	January 1, 2019	Cash flows	Non-cash changes Acquisition	Non-cash changes Disposal	Non-cash changes Foreign exchange movement	December 31, 2019
Long-term borrowings	$ 150,000	3,930	-	-	-	153,930
Short-term borrowings	250,572	349,368	-	-	-	599,940
Lease liabilities	41,433	(11,712)	69,715	(9,366)	(1,184)	88,886
Unearned convertible bonds	-	404,000	-	-	-	404,000
Total liabilities from financing activities	$ 442,005	745,586	69,715	(9,366)	(1,184)	1,246,756

	January 1, 2018	Cash flows	Non-cash changes Foreign exchange movement	December 31, 2018
Long-term borrowings	$ 200,000	(50,000)	-	150,000
Short-term borrowings	-	250,572	-	250,572
Guarantee deposits	183	(183)	-	-
Total liabilities from financing activities	$ 200,183	200,389	-	400,572

(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 consolidated financial statements.

Name of Related Party	Relationship with the Group
Hon Hai Precision Industry Co., Ltd. (HON HAI)	An associate
WWW (Jin Cheng) Co., Ltd. (WWW)	〃
Coretronic Corporation (Coretronic) (Note)	The corporate director of ETERGE
Coretronic Optics (Kunshan) Corporation (Note)	A subsidiary of Coretronic
Mr. Cheng Cheng Tien	Key management personnel
Mr. Lee Jung Chou	〃

Note : Since June 2019, Coretronic is the corporate director of ETERGE and became the related-party of ETERGE. The amounts were disclosed from June 2019.

(b) Significant transactions with related parties

(i) Sales

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

	2019	2018
Associates	$ 15,270	46,667
Other related-parties	39,310	-
	$ 54,580	46,667

The credit conditions and sales prices of the above-mentioned related party transactions of the Group were determined by the agreement of both parties.

(ii) Purchases

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

	2019	2018
Associates	$ -	4,214

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

(Continued)

(iii) Receivables from related parties

The receivables from related parties were as follows:

Account	Relationship	December 31, 2019	December 31, 2018
Accounts receivable	Associates	$ 7,400	16,701
Accounts receivable	Other related parties	13,417	-
Less: loss allowance	Associates	(2,953)	-
		$ 17,864	16,701

(iv) Payables to related parties

The payables to related parties were as follows:

Account	Relationship	December 31, 2019	December 31, 2018
Other payables	Associates	$ -	3,977

The other payables listed above were the payables of processing costs to the associates.

(v) Leases

The Group entered into several two-year lease agreements for its equipment with its associates, WWW in 2018 and recognized as right-of-use asset amounted to $783 thousand. The lease liabilities were as follows:

	Future minimum rental lease payment	Interest	Current minimum rental lease payment
Within a year	$ 814	9	805

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

The Group entered into several one-to-two-year lease agreements for its equipment with its associates, Hon Hai and WWW, in 2018, with the rental amounting to $8,648 thousand for the period from January 1 to December 31, 2018.

(vi) Property transactions

The Group purchased equipment from its associates in 2019 for $5,565 thousand, which had been fully paid as of December 31, 2019.

(vii) Unearned revenue

The associates and other related parties, Coretronic entrusted the Group to design and manufacture molds and other products, the unearned revenue were as follows:

Account	Relationship	December 31, 2019
Contract liabilities	Associates	$ 184
	Other related parties	5,228
		$ 5,412

(viii) Purchase equipment for subsidiary

The Group purchased machinery and equipment on behalf of its associate, WWW, for $43,522 thousand, with an incurred profit amounting to $2,110 thousand, which had been fully received as of December 31, 2019.

(c) Key management personnel compensation

(i) Key management personnel compensation comprised:

	2019	2018
Short-term employee benefits	$ 23,020	17,808
Post-employment benefits	500	289
Share-based payments	3,188	2,878
	$ 26,708	20,975

In 2018, the Group 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 was the joint guarantor of the long-term and short-term borrowings of the Group.

(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 assets–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 guaranteed convertible corporate bonds	65,956	-
		$ 413,790	395,991

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(9) Commitments and contingencies

(a) Unrecognized contractual commitments:

	December 31, 2019	December 31, 2018
Acquisition of property, plant and equipment	$ 60,339	90,872

(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. Thesefore, the Group 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:

	For the year ended December 31					
	2019			2018		
By function / By item	Cost of Sales	Operating Expense	Total	Cost of Sales	Operating Expense	Total
Employee benefits						
Salary	275,635	130,080	405,715	224,355	103,619	327,974
Labor and health insurance	16,401	8,730	25,131	11,406	6,585	17,991
Pension	11,711	5,199	16,910	10,652	4,423	15,075
Others	19,628	5,507	25,135	15,886	2,135	18,021
Depreciation	182,580	8,735	191,315	90,761	22,586	113,347
Amortization	591	4,354	4,945	192	3,299	3,491

(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 Group:

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(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 Item	Collateral Value	Individual funding loan limits	Maximum limit of fund financing
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
1	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.

Note2: 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.

Note3: 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 TWD300 million or 20% of the capital stock: None

(v) Acquisition of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of TWD300 million or 20% of the capital stock: None

(vii) Related-party transactions for purchases and sales with amounts exceeding the lower of TWD100 million or 20% of the capital stock:

(Unit: Thousand dollars)

			Transaction details				Transactions with terms different from others		Notes/accounts receivable (payable)		
Name of company	Related party	Nature of relationship	Purchase/ Sale	Amount	Percentage of total purchases/sales	Payment terms	Unit price	Payment terms	Ending balance	Percentage of total notes/accounts receivable (payable)	Note
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%	Note
JMO	The Company	Parent	Purchases	342,139	88 %	150 days	〃	〃	(233,293)	(78)%	〃
JMO	The Company	Parent	Sales	(190,714)	(24) %	60 days	〃	〃	19,864	6%	〃
The Company	JMO	Subsidiaries	Purchases	190,714	62 %	60 days	〃	〃	(19,864)	(54)%	〃

Note : The above transactions had been eliminated in the consolidated financial statement.

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(viii) Receivables from related parties with amounts exceeding the lower of TWD100 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 Subsidiaries	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

(x) Business relationships and significant intercompany transactions:

(Unit: Thousand dollars)

No. (Note 1)	Name of company	Name of counter-party	Nature of relationship (Note 2)	Intercompany transactions			
				Account name	Amount	Trading terms	Percentage of the consolidated net revenue or total assets
0	The Company	JMO	1	Operating revenues	342,139	No significant difference from the normal customer	24.57%
〃	〃	〃	1	Accounts receivable	223,293	〃	6.24%
〃	〃	〃	1	Other receivables	59,960	The calculated interest at the rate of 3.5%~4.75%	1.68%
1	JMO	The Company	2	Operating revenues	190,714	No significant difference from the normal customer	13.69%
〃	〃	〃	2	Accounts receivable	19,864	〃	0.56%
〃	〃	JMOL	1	Other receivables	129,150	The calculated interest at the rate of 3.5%~4.75%	3.61%
2	JMOL	The Company	2	Operating revenues	66,736	No significant difference from the normal customer	4.79%
〃	〃	〃	2	Accounts receivable	552	〃	0.02%

Note 1: The number is filled in as follows:

1. 0 represents the parent company
2. Subsidiaries are numbered sequentially according to Arabic numeral 1.

Note 2: The types of traders are marked as follows:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

(Continued)

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(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			Highest balance during the year		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of wnership			
The Company	CHENG TIAN	Samoa	General investing	359,760 (USD12,000)	272,338 (USD9,084)	12,000	100.00 %	600,078	12,000	100 %	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	3,700	100 %	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	Highest 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 (USD80,000)	Note 1	271,859 (USD9,068)	88,591 (USD2,955)	-	360,450 (USD12,023)	127,693 (USD4,131)	100.00%	100.00%	144,787 (USD4,684)	627,901 (USD20,944)	-
JMOL	Assemble digital lens and lens coating	86,100 (CNY20,000)	Note 2	- (Note 2)	-	-	-	(35,945) (CNY(8,044))	100.00%	100.00%	(35,945) (CNY(8,044))	4,890 (CNY1,136)	-

(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 (CNY 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.

(Continued)

(iii) Significant transactions:

The significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in "Information on significant transactions".

(14) Segment information

(a) The Group has only a single operating segment, which is mainly engaged in the mold manufacturing, research and development, and sales of optical lens. The information of segment profit and loss, segment assets and liabilities is consistently with the consolidated financial statements. Please refer to the consolidated balance sheet and the consolidated comprehensive income statement.

(b) Product and service information

Revenue from the external customers of the Group was as follows:

Product and services		2019	2018
Mold (including mold base and core)	$	973,622	866,567
Others		419,127	329,266
	$	**1,392,749**	**1,195,833**

(c) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

(i) Revenue from external customers:

Geographical information		2019	2018
China	$	863,275	666,354
Korea		341,684	351,253
Taiwan		141,782	154,746
United States		12,118	15,800
Other countries		33,890	7,680
Total	$	**1,392,749**	**1,195,833**

(ii) Non-current assets:

Geographical information		2019	2018
Taiwan	$	1,241,637	1,086,859
China		551,353	433,520
Total	$	**1,792,990**	**1,520,379**

Non-current assets include property, plant and equipment, right-of-use assets, intangible assets, guarantee deposits, and other non-current assets, not including deferred tax assets.

ZHONG YANG TECHNOLOGY CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(d) Major customers

The details of sales revenue from external customers more than 10% of the amount of consolidated statement of comprehensive income were as follows:

		2019	2018
J Company	$	201,540	177,605
N Company		174,107	26,470
A Company		24,767	140,093
L Company		141,105	88,607
	$	**541,519**	**432,775**