

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REPORT OF INDEPENDENT ACCOUNTANTS**  
**DECEMBER 31, 2019 AND 2018**

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

PWCR19000250

To GCS Holdings, Inc.

***Opinion***

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 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 Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

***Basis for opinion***

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (“ROC GAAS”). Our responsibilities under those standards are further described in the *Responsibilities of Independent Accountants for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

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

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

***Key Audit Matter – Sales revenue recognition***

Description

Please refer to Note 4(27) for accounting policies of revenue recognition. Please refer to Note 6(19) for description of revenue.

The Group primarily engages in the manufacturing and selling of compound semiconductor wafers and advanced optoelectronics technology products. Among the operating revenue of NT\$1,786,334 thousands for the year ended December 31, 2019, sales revenue generated from compound semiconductor wafers and advanced optoelectronics technology products amounted to NT\$1,758,742 thousands, representing 98% of total operating revenue. The Group's customers include wireless devices and fiber-optic communication providers in China, U.S.A., Taiwan and etc., and sales terms vary based on market conditions and customer needs in different regions. Considering that sales revenue are the main transactions of the Group, which has significant effect on the consolidated financial statements and requires substantial amount of time and resources for validation, we identified the audit of sales revenue recognition as one of the key audit matters.

How our audit addressed the matter

The major audit procedures regarding sales revenue recognition were as follows:

1. Evaluated the design and operating effectiveness of internal controls relevant to sales revenue recognition.
2. Sampled and tested sales transactions by inspecting customers' purchase orders, documents regarding transfer of control, invoices and subsequent collection of accounts receivable to validate the occurrence and accuracy of sales transactions.
3. Performed test of sales transactions within a defined period before and after the balance sheet date in order to verify whether the sales transactions were recorded in the appropriate periods.
4. Performed confirmation procedures for sampled accounts receivable and inspected significant sales return and discount transactions that occurred in the subsequent period to verify the authenticity of sales transactions, the accuracy of sales amounts recognized and the appropriate timing for recording sales transactions.

***Key Audit Matter – Assessment of allowance for valuation of inventory***

Description

Please refer to Note 4(11) for description of accounting policies on allowance for inventory valuation. Please refer to Note 5(2) for accounting estimates and assumption uncertainty on evaluation of inventory. Please refer to Note 6(4) for description of allowance for inventory valuation.

The Group primarily engages in the manufacturing and selling of compound semiconductor wafers and advanced optoelectronics technology products. Among to rapid technological innovations, intense market competition and fluctuations in market prices, there is a higher risk of inventory losses due from market value decline or obsolescence. The Group used net realizable value to make provisions for estimated loss related to inventories aged over a certain period and individually identified as obsolete. The aforementioned identification of obsolete inventories and net realizable value are subject to management’s judgment. Considering the Group’s inventory and allowance for inventory valuation have a significant impact on the Group’s consolidated financial statements, we identified the assessment of allowance for valuation of inventory as one of the key audit matters.

How our audit addressed the matter

Our audit procedures performed in respect of the above area included the following:

1. Ensured consistent application of accounting policies in relation to allowance for inventory valuation and assessed the reasonableness of these policies.
2. Validated the appropriateness of inventory aging report used by management to ensure that the information in the inventory aging report is consistent with the corresponding accounting policies.
3. Obtained net realizable value calculation report prepared by management, sampled inventory items and checked whether purchase or sales documents corresponded to records and recalculated the net realizable value calculation for accuracy. Performed the aforementioned audit procedures to assess the reasonableness of recognized inventory valuation fluctuations.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.





資誠

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 Audit Committee, are responsible for overseeing the Group's financial reporting process.

***Responsibilities of independent accountants 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 a report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement 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 controls.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the 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 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 footnote 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 remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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 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.

LI, TIEN-YI

Li, Tien-Yi

Chih-Cheng Hsieh

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 16, 2020

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

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
<b>Current assets</b>						
1100	Cash and cash equivalents	6(1)	\$ 1,838,994	47	\$ 1,512,863	44
1150	Notes receivable, net		59	-	127	-
1170	Accounts receivable, net	6(3)	317,067	8	212,806	6
1200	Other receivables		19,687	-	19,026	1
1220	Current income tax assets		24,194	1	28,459	1
130X	Inventories	6(4)	352,983	9	330,694	10
1410	Prepayments		9,233	-	14,813	-
1470	Other current assets	8	30,951	1	92,571	3
11XX	<b>Total current assets</b>		<u>2,593,168</u>	<u>66</u>	<u>2,211,359</u>	<u>65</u>
<b>Non-current assets</b>						
1517	Non-current financial assets at fair value through other comprehensive income	6(2)	159,531	4	-	-
1600	Property, plant and equipment	6(5) and 8	775,808	20	723,641	21
1755	Right-of-use assets	6(6)	30,371	1	-	-
1780	Intangible assets	6(7)	197,032	5	185,489	6
1840	Deferred income tax assets	4(24)	129,281	3	171,323	5
1900	Other non-current assets	6(8) and 8	17,808	1	110,472	3
15XX	<b>Total non-current assets</b>		<u>1,309,831</u>	<u>34</u>	<u>1,190,925</u>	<u>35</u>
1XXX	<b>Total assets</b>		<u>\$ 3,902,999</u>	<u>100</u>	<u>\$ 3,402,284</u>	<u>100</u>

(Continued)

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>						
2100	Short-term borrowings	6(9)	\$ 20,000	1	\$ 20,300	1
2130	Current contract liabilities	6(19)	11,875	-	16,302	-
2170	Accounts payable		15,872	-	19,423	-
2200	Other payables	6(11)	157,780	4	164,280	5
2230	Current income tax liabilities		90	-	-	-
2280	Current lease liabilities		10,219	-	-	-
2320	Long-term borrowings, current portion	6(10)	23,050	1	20,818	1
2399	Other current liabilities	6(12)	608	-	6,185	-
21XX	<b>Total current liabilities</b>		<u>239,494</u>	<u>6</u>	<u>247,308</u>	<u>7</u>
<b>Non-current liabilities</b>						
2540	Long-term borrowings	6(10)	42,195	1	57,424	2
2570	Deferred income tax liabilities	6(24)	76,123	2	84,451	2
2580	Non-current lease liabilities		17,762	1	-	-
2600	Other non-current liabilities		317	-	316	-
25XX	<b>Total non-current liabilities</b>		<u>136,397</u>	<u>4</u>	<u>142,191</u>	<u>4</u>
2XXX	<b>Total liabilities</b>		<u>375,891</u>	<u>10</u>	<u>389,499</u>	<u>11</u>
<b>Equity</b>						
<b>Equity attributable to owners of the parent</b>						
<b>Share capital</b>						
3110	Common stock	6(15)	908,335	23	821,691	24
<b>Capital surplus</b>						
3200	Capital surplus	6(16)	1,447,954	37	1,092,635	32
<b>Retained earnings</b>						
3320	Special reserve	6(17)	6,821	-	6,821	-
3350	Unappropriated retained earnings		1,304,961	33	1,143,944	34
<b>Other equity interest</b>						
3400	Other equity interest	6(18)	( 55,884)	( 1)	27,805	1
3500	Treasury stocks	6(15)	( 90,870)	( 2)	( 90,870)	( 3)
31XX	<b>Equity attributable to owners of the parent</b>		<u>3,521,317</u>	<u>90</u>	<u>3,002,026</u>	<u>88</u>
36XX	<b>Non-controlling interest</b>		<u>5,791</u>	<u>-</u>	<u>10,759</u>	<u>1</u>
3XXX	<b>Total equity</b>		<u>3,527,108</u>	<u>90</u>	<u>3,012,785</u>	<u>89</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>						
<b>Significant events after the reporting period</b>						
3X2X	<b>Total liabilities and equity</b>		<u>\$ 3,902,999</u>	<u>100</u>	<u>\$ 3,402,284</u>	<u>100</u>

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



**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

		Years ended December 31			
		2019		2018	
Items	Notes	AMOUNT	%	AMOUNT	%
4000	<b>Operating revenue</b>	\$ 1,786,334	100	\$ 1,952,411	100
5000	<b>Cost of operating revenue</b>	( 976,403)	( 55)	( 1,054,699)	( 54)
5900	<b>Net operating margin</b>	<u>809,931</u>	<u>45</u>	<u>897,712</u>	<u>46</u>
	<b>Operating expenses</b>				
6100	Selling and marketing expenses	( 41,186)	( 2)	( 47,770)	( 2)
6200	General and administrative expenses	( 278,519)	( 16)	( 274,255)	( 14)
6300	Research and development expenses	( 178,409)	( 10)	( 188,962)	( 10)
6450	Net impairment (loss) income on financial assets	( 10,067)	-	515	-
6000	<b>Total operating expenses</b>	<u>( 508,181)</u>	<u>( 28)</u>	<u>( 510,472)</u>	<u>( 26)</u>
6900	<b>Operating profit</b>	<u>301,750</u>	<u>17</u>	<u>387,240</u>	<u>20</u>
	<b>Non-operating income and expenses</b>				
7010	Other income	26,502	1	7,571	-
7020	Other gains and losses	( 1,558)	-	2,096	-
7050	Finance costs	( 5,073)	-	( 5,137)	-
7060	Share of net loss of associates and joint ventures accounted for using equity method	-	-	( 756)	-
7000	<b>Total non-operating income and expenses</b>	<u>19,871</u>	<u>1</u>	<u>3,774</u>	<u>-</u>
7900	<b>Profit before income tax</b>	<u>321,621</u>	<u>18</u>	<u>391,014</u>	<u>20</u>
7950	Income tax expense	( 58,625)	( 3)	( 73,425)	( 4)
8200	<b>Net income for the year</b>	<u>\$ 262,996</u>	<u>15</u>	<u>\$ 317,589</u>	<u>16</u>
	<b>Other comprehensive (loss) income</b>				
	<b>Other comprehensive (loss) income components that will not be reclassified to profit or loss</b>				
8361	Financial statements translation differences of foreign operations	( \$ 85,434)	( 5)	\$ 78,641	4
8300	<b>Total other comprehensive (loss) income, net</b>	<u>( \$ 85,434)</u>	<u>( 5)</u>	<u>\$ 78,641</u>	<u>4</u>
8500	<b>Total comprehensive income for the year</b>	<u>\$ 177,562</u>	<u>10</u>	<u>\$ 396,230</u>	<u>20</u>
	<b>Profit (loss) attributable to:</b>				
8610	Owners of the parent	\$ 267,578	15	\$ 320,302	16
8620	Non-controlling interest	( 4,582)	-	( 2,713)	-
	<b>Total</b>	<u>\$ 262,996</u>	<u>15</u>	<u>\$ 317,589</u>	<u>16</u>
	<b>Total comprehensive income (loss) attributable to:</b>				
8710	Owners of the parent	\$ 182,530	10	\$ 398,771	20
8720	Non-controlling interest	( 4,968)	-	( 2,541)	-
	<b>Total</b>	<u>\$ 177,562</u>	<u>10</u>	<u>\$ 396,230</u>	<u>20</u>
	<b>Earnings per share</b>				
9750	<b>Basic earnings per share (in dollars)</b>	<u>\$ 3.04</u>		<u>\$ 4.01</u>	
9850	<b>Diluted earnings per share (in dollars)</b>	<u>\$ 3.00</u>		<u>\$ 3.96</u>	

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Equity Attributable To Owners Of The Parent										Non-Controlling Interest	Total Equity
	Retained Earnings			Other Equity Interest				Treasury Stocks	Total			
	Common stock	Capital Surplus	Special Reserve	Unappropriated Retained Earnings	Financial Statements Translation Differences of Foreign Operations	Unearned Compensation Costs						
Notes												
<u>2018</u>												
Balance at January 1, 2018	\$ 804,389	\$ 958,751	\$ 6,821	\$ 902,702	(\$ 35,464)	(\$ 8,760)	(\$ 90,870)	\$ 2,537,569	\$ -	\$ 2,537,569	\$ -	\$ 2,537,569
Consolidated net income (loss) for 2018	-	-	-	320,302	-	-	-	320,302	( 2,713 )	317,589	( 2,713 )	317,589
Other comprehensive income for 2018	-	-	-	-	78,469	-	-	78,469	172	78,641	172	78,641
Total comprehensive income (loss) for 2018	-	-	-	320,302	78,469	-	-	398,771	( 2,541 )	396,230	( 2,541 )	396,230
Distribution of 2017 earnings:												
Cash dividends	-	-	-	( 79,060 )	-	-	-	( 79,060 )	-	( 79,060 )	-	( 79,060 )
Compensation costs of share-based payment	-	20,690	-	-	-	28,928	-	49,618	-	49,618	-	49,618
Issuance of restricted stocks to employees	4,260	31,500	-	-	-	( 35,760 )	-	-	-	-	-	-
Retirement of restricted stocks to employees	( 50 )	( 342 )	-	-	-	392	-	-	-	-	-	-
Exercise of employee stock options	2,231	3,736	-	-	-	-	-	5,967	-	5,967	-	5,967
Conversion of convertible bonds	10,861	78,300	-	-	-	-	-	89,161	-	89,161	-	89,161
Non-controlling interest - acquisition of a subsidiary	-	-	-	-	-	-	-	-	13,300	-	13,300	13,300
Balance at December 31, 2018	\$ 821,691	\$ 1,092,635	\$ 6,821	\$ 1,143,944	\$ 43,005	(\$ 15,200)	(\$ 90,870)	\$ 3,002,026	\$ 10,759	\$ 3,012,785	\$ 10,759	\$ 3,012,785
<u>2019</u>												
Balance at January 1, 2019	\$ 821,691	\$ 1,092,635	\$ 6,821	\$ 1,143,944	\$ 43,005	(\$ 15,200)	(\$ 90,870)	\$ 3,002,026	\$ 10,759	\$ 3,012,785	\$ 10,759	\$ 3,012,785
Consolidated net income (loss) for the 2019	-	-	-	267,578	-	-	-	267,578	( 4,582 )	262,996	( 4,582 )	262,996
Other comprehensive loss for the 2019	-	-	-	-	( 85,048 )	-	-	( 85,048 )	386	( 85,434 )	386	( 85,434 )
Total comprehensive income (loss) for the 2019	-	-	-	267,578	( 85,048 )	-	-	182,530	( 4,968 )	177,562	( 4,968 )	177,562
Distribution of 2018 earnings:												
Cash dividends	-	-	-	( 106,561 )	-	-	-	( 106,561 )	-	( 106,561 )	-	( 106,561 )
Compensation costs of share-based payment	-	13,835	-	-	-	34,271	-	48,106	-	48,106	-	48,106
Issuance of restricted stocks to employees	5,700	28,927	-	-	-	( 34,627 )	-	-	-	-	-	-
Retirement of restricted stocks to employees	( 250 )	( 1,465 )	-	-	-	1,715	-	-	-	-	-	-
Exercise of employee stock options	1,194	3,467	-	-	-	-	-	4,661	-	4,661	-	4,661
Issuance of share capital - Global Depository Receipts	80,000	310,555	-	-	-	-	-	390,555	-	390,555	-	390,555
Balance at December 31, 2019	\$ 908,335	\$ 1,447,954	\$ 6,821	\$ 1,304,961	(\$ 42,043)	(\$ 13,841)	(\$ 90,870)	\$ 3,521,317	\$ 5,791	\$ 3,527,108	\$ 5,791	\$ 3,527,108

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

**GCS HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	Years ended December 31,	
		2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 321,621	\$ 391,014
Adjustments			
Adjustments to reconcile profit (loss)			
Net impairment loss (income) on financial assets	12(2)	10,067	( 515 )
Depreciation	6(5)(6)(22)	129,900	113,693
Amortization	6(7)(22)	6,094	5,489
Interest expense	6(21)	5,073	5,137
Interest income		( 26,498 )	( 5,988 )
Compensation cost of share-based payment	6(14)	48,106	49,618
Net gain on financial liabilities at fair value through profit or loss	6(20)	-	( 2,322 )
Gain on disposal of property, plant and equipment	6(20)	586	-
Share of net loss of associates and joint ventures accounted for using equity method		-	756
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		68	467
Accounts receivable		( 123,995 )	91,849
Other receivables		( 1,307 )	( 3,232 )
Inventories		( 30,859 )	8,534
Prepayments		759	( 1,584 )
Changes in operating liabilities			
Contract liabilities		( 4,159 )	( 8,467 )
Accounts payable		( 3,175 )	1,066
Other payables		11,670	( 742 )
Other current liabilities		( 705 )	( 1,662 )
Cash inflow generated from operations		343,246	643,111
Interest received		26,499	5,989
Interest paid		( 5,050 )	( 4,367 )
Income tax paid		( 23,397 )	( 61,134 )
Net cash flows from operating activities		<u>341,298</u>	<u>583,599</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of non-current financial assets at fair value through other comprehensive income	12(3)	( 164,000 )	-
Acquisition of property, plant and equipment	6(28)	( 128,000 )	( 155,995 )
Proceeds from disposal of property, plant and equipment		50	35
Acquisition of intangible assets	6(7)	( 9,153 )	( 5,197 )
Acquisition of a subsidiary	6(26)	-	( 2,442 )
Decrease (increase) in other current assets		61,232	( 404 )
(Increase) decrease in other non-current assets		( 2,306 )	47
Cash inflows from business combination	6(26)	-	27,263
Net cash flows used in investing activities		<u>( 242,177 )</u>	<u>( 136,693 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from short-term borrowings		20,000	20,300
Repayments of short-term borrowings		( 20,300 )	( 20,000 )
Proceeds from long-term borrowings		10,000	-
Repayments of long-term borrowings		( 21,742 )	( 19,621 )
Repayments of bonds payable	6(29)	-	( 2,800 )
Repayments of lease liabilities	6(29)	( 15,108 )	-
Payments of cash dividends		( 106,561 )	( 79,060 )
Proceeds from exercise of employee stock options		4,661	5,967
Increase in prepayments		-	( 5,792 )
Proceeds from issuance of share capital - Global Depository Receipts		390,555	-
Net cash flows from (used in) financing activities		<u>261,505</u>	<u>( 101,006 )</u>
Effect of changes in exchange rates		( 34,495 )	47,251
Net increase in cash and cash equivalents		326,131	393,151
Cash and cash equivalents at beginning of year	6(1)	1,512,863	1,119,712
Cash and cash equivalents at end of year	6(1)	<u>\$ 1,838,994</u>	<u>\$ 1,512,863</u>

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

GCS HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2019 AND 2018  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

GCS Holdings Inc. (the “Company”) was incorporated in the Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the Taipei Exchange. The Company was approved by the Financial Supervisory Commission to be listed on the Taipei Exchange. The Company's common shares have been traded on the Taipei Exchange since September 15, 2014.

The Company and subsidiaries (collectively referred herein as the “Group”) are engaged in the manufacturing of compound semiconductor wafers and foundry related services as well as licensing of intellectual property. The Group is also engaged in the research, development, manufacture and sales of advanced optoelectronics technology products.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 16, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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



IFRS 16, 'Leases' ("IFRS 16")

- (a) IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- (b) The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the 'modified retrospective approach') when applying the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") effective in 2019. Accordingly, the Group decreased 'property, plant and equipment' by \$12,992, and increased 'right-of-use asset' and 'lease liabilities' by \$46,467 and \$43,420, respectively, with respect to the lease contracts of lessees on January 1, 2019.
- (c) The Group has adopted the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
  - i. Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
  - ii. The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - iii. The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of \$217 was recognized in the year of 2019.
  - iv. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- (d) The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate ranging from 2.22% to 6.50%.

- (e) The reconciliation between operating lease commitments for the remaining lease payments under IAS 17 and lease liabilities recognized as of January 1, 2019, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate is as follows:

Operating lease commitments disclosed by applying IAS 17 as of December 31, 2018	\$ 42,413
Add: Lease payable recognized under finance lease by applying IAS 17 as of December 31, 2018	4,793
Less: Short-term leases	( 217)
Total lease contracts amount recognized as lease liabilities by applying IFRS 16 on January 1, 2019	<u>\$ 46,989</u>
Incremental borrowing interest rate at the date of initial application	<u>2.22% to 6.50%</u>
Lease liabilities recognized as of January 1, 2019 by applying IFRS 16	<u>\$ 43,420</u>

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
Amendment to IAS 1 and IAS 8, 'Disclosure initiative-definition of material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS7, 'Interest rate benchmark reform'	January 1, 2020

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

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

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

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

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Compliance statement

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

##### (2) Basis of preparation

- A. Except for the financial assets at fair value through other comprehensive income, the consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

##### (3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
  - (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
  - (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Note
			December 31, 2019	December 31, 2018	
The Company	Global Communication Semiconductors, LLC	1. Manufacturing of compound semiconductor wafers and foundry related services as well as granting royalty rights for intellectual property 2. Manufacturing and selling of advanced optoelectronics technology products	100	100	-
The Company	GCS Device Technologies, Co., Ltd.	Product design and research development services	100	100	-
The Company	Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	51	51	(Note 1)
The Company	GCOM Semiconductor Co., Ltd.	Wholesaling and retailing of electronic components, product design, and outsourcing management services	100	-	(Note 2)
Global Communication Semiconductors, LLC	D-Tech Optoelectronics, Inc.	Developing, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	100	100	-
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Manufacturing, retailing and wholesaling of telecommunications devices, and manufacturing and wholesaling of electronic components	100	100	-

Note1: The Group completed the acquisition of an additional 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. ('Xiamen Global') in September 2018, and has included Xiamen Global in the Group's consolidated financial statements since then. Xiamen Global had been terminated on March 12, 2020, and the funds will be remitted after the completion of liquidation process in mainland China.

Note2: GCOM Semiconductor Co., Ltd. was established on February 22, 2019.

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

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

E. Significant restrictions: None.

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

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is United States dollars; however, the consolidated financial statements are presented in New Taiwan dollars in accordance with the regulations of the country where the consolidated financial statements are reported to the regulatory authorities.



#### A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'Other gains and losses'.

#### B. Translation of foreign operations

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

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- (c) All resulting exchange differences are recognized in other comprehensive income.

#### (5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

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

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;

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

(6) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognize changes in fair value in other comprehensive income.

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

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

The Group subsequently measures the financial assets at fair value:

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

(8) Accounts and notes receivable

A. In accordance with contracts, accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

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

(9) Impairment of financial assets

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

(10) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Inventories

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

(12) Investment accounted for using equity method- joint ventures

The Group accounts for its interest in a joint venture using equity method. Unrealized profits and losses arising from the transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. However, when the investment has objective evidence of a reduction in the net realizable value of current assets or an impairment loss, all such losses shall be recognized immediately. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture together with any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply cost model. Land is not depreciated, and other property, plant and equipment are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each significant part of an item of property, plant and equipment is required to be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	35 years
Machinery equipment	5 ~7 years
Computer and communication equipment	5 years
Research equipment	5 ~7 years
Office equipment	5 ~10 years
Leased assets	7 years
Leasehold improvements	6 ~ 15 years

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

Effective from 2019

- A. Leases are recognized as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognized as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of the following fixed payments, less any lease incentives receivable. The Group subsequently measures the lease liability at amortized cost using the interest method and recognizes interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognized as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.
- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
- The amount of the initial measurement of lease liability;
  - Any lease payments made at or before the commencement date.
- The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognized as an adjustment to the right-of-use asset.

(15) Leased assets/leases (lessee)

Prior to 2019

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.
- A finance lease is recognized as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
  - The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
  - Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Group will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful



life.

B. An operating lease is a lease other than a finance lease. Payments made under an operating lease are recognized in profit or loss on a straight-line basis over the lease term.

(16) Intangible assets

A. Computer software

Computer software is stated at cost and amortized on a straight-line basis over its estimated useful life of 1 to 5 years.

B. Goodwill

Goodwill arises in a business combination accounted for by applying the acquisition method.

(17) Impairment of non-financial assets

A. The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss.

B. The recoverable amounts of goodwill, intangible assets with an indefinite useful life and intangible assets that have not yet been available for use are evaluated periodically. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognized in profit or loss shall not be reversed in the following years.

C. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination.

(18) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(19) Notes and accounts payable

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

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

(20) Convertible bonds payable

Bonds payable

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

- (a) Call options and put options embedded in convertible corporate bonds are recognized initially at net fair value as 'Financial assets or financial liabilities at fair value through profit or loss'. They are subsequently remeasured and stated at fair value on each balance sheet date; the gain or loss is recognized as 'Gain or loss on valuation of financial assets or financial liabilities at fair value through profit or loss'.
- (b) Bonds payable of convertible corporate bonds is initially recognized at fair value and subsequently stated at amortized cost. Any difference between the proceeds and the redemption value is accounted for as the premium or discount on bonds payable and presented as an addition to or deduction from bonds payable, which is amortized in profit or loss as an adjustment to the 'Finance costs' over the period of bond circulation using the effective interest method.
- (c) Any transaction costs directly attributable to the issuance of convertible corporate bonds are allocated to the liability and equity components in proportion to the allocation of proceeds.
- (d) When bondholders exercise conversion options, the liability component of the bonds (including 'Bonds payable and 'Financial assets or financial liabilities at fair value through profit or loss') shall be remeasured on the conversion date. The book value of common shares issued due to the conversion shall be based on the adjusted book value of the abovementioned liability component.

(21) Derecognition of financial liabilities

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

(22) Employee benefits

A. Short-term employee benefits

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

B. Pensions

Defined contribution plans

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

### C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Group's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Group recognizes termination benefits when it is demonstrably committed to a termination, when it has a detailed formal plan to terminate the employment of current employees and when it can no longer withdraw the plan.

### D. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

## (23) Employee share-based payment

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

### B. Restricted stocks

- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period.
- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognizes the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividends declaration.

## (24) Income tax

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

- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. If a change in tax rate is enacted or substantively enacted, the Group recognizes the effect of the change immediately in the period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(25) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(26) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities.

(27) Revenue recognition

A. Sales of goods

- (a) The Group engages in the manufacturing and selling of compound semiconductor wafer and advanced optoelectronics technology products. Sales are recognized when control of the products has transferred, being when the products are delivered to the customer 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 loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Revenue from these sales is recognized based on the price specified in the contract. A refund liability is recognized for expected sales discounts and allowances payable to customers in relation to sales made through the end of the reporting period.
- (c) A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Service revenue

- (a) The Group provides transfer services of wafer manufacturing process to the customers. Revenue from providing services is recognized in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognized based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost relative to the total expected cost. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.
- (b) Some contracts include multiple deliverables. As the services provided by the Group are highly correlated and not distinct, they are identified to be one performance obligation.
- (c) The Group's estimate about revenue, costs and progress towards completion of a performance obligation is subject to revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when management becomes aware of the changes in circumstances.

C. Royalty revenue

Some contracts require sales-based royalty in exchange for a license of intellectual property. The Group recognizes revenue when the performance obligation has been satisfied and the subsequent sale occurs.

#### E. 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.

#### (28) Business combinations

- A. The Group uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognized and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognized directly in profit or loss on the acquisition date.

#### (29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

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

and liabilities within the next financial year; and the related information is addressed below:

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

None.

(2) Critical accounting estimates and assumptions

The Group makes estimates and assumptions based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Evaluation of inventories

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

As of December 31, 2019, the carrying amount of inventories was \$352,983.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand	\$ 123	\$ 117
Checking accounts and demand deposits	<u>1,838,871</u>	<u>1,512,746</u>
	<u>\$ 1,838,994</u>	<u>\$ 1,512,863</u>

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

B. The Group has no cash and cash equivalents pledged to others.

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

<u>Items</u>	<u>December 31, 2019</u>
Non-current items:	
Equity instruments	
Unlisted stocks	\$ 164,000
Net exchange difference	( 4,469)
Total	<u>\$ 159,531</u>

As of December 31, 2018, the Group has no financial assets at fair value through other comprehensive income.

The Group has elected to classify financial assets that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The

fair value of such investments amounted to \$159,531 as of December 31, 2019.

(3) Accounts receivable

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	\$ 322,130	\$ 213,433
Less: Loss allowance	( 5,063)	( 627)
	<u>\$ 317,067</u>	<u>\$ 212,806</u>

A. As of December 31, 2019 and 2018, accounts receivable were all from contracts with customers.

And as of January 1, 2018, the balance of receivables from contracts with customers was \$296,921.

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

(4) Inventories

	<u>December 31, 2019</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 129,722	(\$ 18,486)	\$ 111,236
Work in progress	220,891	( 28,855)	192,036
Finished goods	54,487	( 4,776)	49,711
	<u>\$ 405,100</u>	<u>(\$ 52,117)</u>	<u>\$ 352,983</u>
	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Allowance</u>	<u>Book value</u>
Raw materials	\$ 145,388	(\$ 31,297)	\$ 114,091
Work in progress	185,761	( 31,979)	153,782
Finished goods	66,146	( 3,325)	62,821
	<u>\$ 397,295</u>	<u>(\$ 66,601)</u>	<u>\$ 330,694</u>

Expenses and costs incurred as cost of operating revenue for the years ended December 31, 2019 and 2018 were as follows:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cost of inventories sold	\$ 1,035,761	\$ 1,111,241
Recovery of market price decline	( 13,229)	( 17,714)
Revenue from sale of scraps	( 46,129)	( 38,828)
	<u>\$ 976,403</u>	<u>\$ 1,054,699</u>

The Group recognized recovery of loss of market price decline for the years ended December 31, 2019 and 2018 because some of the inventories previously written down were sold.



(5) Property, plant and equipment

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Construction in progress	Total
At January 1, 2019										
Cost	\$ 141,466	\$ 94,310	\$ 1,174,986	\$ 10,547	\$ 100,089	\$ 11,738	\$ 43,175	\$ 300,876	\$ -	\$ 1,877,187
Accumulated depreciation	-	( 9,207)	( 820,064)	( 8,254)	( 39,736)	( 9,413)	( 30,183)	( 236,689)	-	( 1,153,546)
	141,466	85,103	354,922	2,293	60,353	2,325	12,992	64,187	-	723,641
Effect of initial application of IFRS 16 (Note 1)	-	-	-	-	-	( 12,992)	-	-	-	( 12,992)
	<u>\$ 141,466</u>	<u>\$ 85,103</u>	<u>\$ 354,922</u>	<u>\$ 2,293</u>	<u>\$ 60,353</u>	<u>\$ 2,325</u>	<u>\$ -</u>	<u>\$ 64,187</u>	<u>\$ -</u>	<u>\$ 710,649</u>
2019										
Opening net book amount	\$ 141,466	\$ 85,103	\$ 354,922	\$ 2,293	\$ 60,353	\$ 2,325	\$ -	\$ 64,187	\$ -	\$ 710,649
Additions	-	-	22,238	603	1,837	-	-	-	96,929	121,607
Transfers (Note 2)	-	-	66,543	-	-	-	-	-	10,671	77,214
Disposals	-	-	( 636)	-	-	-	-	-	-	( 636)
Depreciation charges	-	( 2,711)	( 85,765)	( 1,105)	( 11,616)	( 1,060)	-	( 12,031)	-	( 114,288)
Net exchange differences	( 3,408)	( 1,967)	( 7,837)	( 39)	( 1,043)	( 22)	-	( 1,185)	( 3,237)	( 18,738)
Closing net book amount	<u>\$ 138,058</u>	<u>\$ 80,425</u>	<u>\$ 349,465</u>	<u>\$ 1,752</u>	<u>\$ 49,531</u>	<u>\$ 1,243</u>	<u>\$ -</u>	<u>\$ 50,971</u>	<u>\$ 104,363</u>	<u>\$ 775,808</u>
At December 31, 2019										
Cost	\$ 138,058	\$ 92,039	\$ 1,189,695	\$ 10,647	\$ 99,712	\$ 11,514	\$ -	\$ 293,827	\$ 104,363	\$ 1,939,855
Accumulated depreciation	-	( 11,614)	( 840,230)	( 8,895)	( 50,181)	( 10,271)	-	( 242,856)	-	( 1,164,047)
	<u>\$ 138,058</u>	<u>\$ 80,425</u>	<u>\$ 349,465</u>	<u>\$ 1,752</u>	<u>\$ 49,531</u>	<u>\$ 1,243</u>	<u>\$ -</u>	<u>\$ 50,971</u>	<u>\$ 104,363</u>	<u>\$ 775,808</u>

	Land	Buildings	Machinery equipment	Computer and communication equipment	Research equipment	Office equipment	Leased assets	Leasehold improvements	Total
At January 1, 2018									
Cost	\$ 137,045	\$ 91,363	\$ 1,020,035	\$ 10,103	\$ 116,587	\$ 11,545	\$ 41,826	\$ 292,911	\$ 1,721,415
Accumulated depreciation	-	( 6,308)	( 725,444)	( 7,081)	( 33,730)	( 8,156)	( 23,265)	( 216,776)	( 1,020,760)
	<u>\$ 137,045</u>	<u>\$ 85,055</u>	<u>\$ 294,591</u>	<u>\$ 3,022</u>	<u>\$ 82,857</u>	<u>\$ 3,389</u>	<u>\$ 18,561</u>	<u>\$ 76,135</u>	<u>\$ 700,655</u>
2018									
Opening net book amount	\$ 137,045	\$ 85,055	\$ 294,591	\$ 3,022	\$ 82,857	\$ 3,389	\$ 18,561	\$ 76,135	\$ 700,655
Acquired through business combination	-	-	-	52	-	-	-	-	52
Additions	-	-	87,426	438	26,465	-	-	427	114,756
Disposals	-	-	-	-	-	( 35)	-	-	( 35)
Reclassifications	-	-	42,663	-	( 42,663)	-	-	-	-
Depreciation charges	-	( 2,645)	( 79,708)	( 1,287)	( 8,346)	( 1,102)	( 6,053)	( 14,552)	( 113,693)
Net exchange differences	4,421	2,693	9,950	68	2,040	73	484	2,177	21,906
Closing net book amount	<u>\$ 141,466</u>	<u>\$ 85,103</u>	<u>\$ 354,922</u>	<u>\$ 2,293</u>	<u>\$ 60,353</u>	<u>\$ 2,325</u>	<u>\$ 12,992</u>	<u>\$ 64,187</u>	<u>\$ 723,641</u>

At December 31, 2018

Cost	\$ 141,466	\$ 94,310	\$ 1,174,986	\$ 10,547	\$ 100,089	\$ 11,738	\$ 43,175	\$ 300,876	\$ 1,877,187
Accumulated depreciation	-	( 9,207)	( 820,064)	( 8,254)	( 39,736)	( 9,413)	( 30,183)	( 236,689)	( 1,153,546)
	<u>\$ 141,466</u>	<u>\$ 85,103</u>	<u>\$ 354,922</u>	<u>\$ 2,293</u>	<u>\$ 60,353</u>	<u>\$ 2,325</u>	<u>\$ 12,992</u>	<u>\$ 64,187</u>	<u>\$ 723,641</u>

Note 1: Please refer to Note 6(6) for the information about the adjustment of initial application of IFRS 16 on January 1, 2019.

Note 2: Transfer from prepayment for equipment (shown as "Other non-current assets").

- A. Amount of borrowing costs capitalized as part of property, plant and equipment for the years ended December 31, 2019 and 2018: None.
- B. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(6) Leasing arrangements – lessee

Effective from 2019

A. The Group leases various assets including plant, office premise and machinery equipment. Lease agreements are typically made for periods of 1 to 8 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants. Short-term leases with a lease term of 12 months or less comprise office premise and parking spaces. Low-value assets comprise office equipment.

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

	Year ended	
	December 31, 2019	December 31, 2019
	Carrying amount	Depreciation charge
Buildings	\$ 23,712	\$ 9,406
Machinery equipment	6,659	6,206
	<u>\$ 30,371</u>	<u>\$ 15,612</u>

C. The information on income and expense accounts relating to lease agreements is as follows:

	Year ended	
	December 31, 2019	
<u>Items affecting profit or loss</u>		
Interest expense on lease liabilities	\$	1,718
Expense on short-term lease agreements		1,163
Expense on leases of low-value assets		100

D. For the year ended December 31, 2019, the Group's total cash outflow for leases amounted to \$18,089.

(7) Intangible assets

	<u>Software</u>	<u>Goodwill</u>	<u>Total</u>
<u>At January 1, 2019</u>			
Cost	\$ 62,791	\$ 178,486	\$ 241,277
Accumulated amortization and impairment	( 55,788)	-	( 55,788)
	<u>\$ 7,003</u>	<u>\$ 178,486</u>	<u>\$ 185,489</u>
<u>2019</u>			
At January 1	\$ 7,003	\$ 178,486	\$ 185,489
Additions	9,153	-	9,153
Transfers (Note)	13,363	-	13,363
Amortization charges	( 6,094)	-	( 6,094)
Net exchange differences	( 579)	( 4,300)	( 4,879)
At December 31	<u>\$ 22,846</u>	<u>\$ 174,186</u>	<u>\$ 197,032</u>
<u>At December 31, 2019</u>			
Cost	\$ 78,068	\$ 174,186	\$ 252,254
Accumulated amortization and impairment	( 55,222)	-	( 55,222)
	<u>\$ 22,846</u>	<u>\$ 174,186</u>	<u>\$ 197,032</u>
<u>At January 1, 2018</u>			
Cost	\$ 56,744	\$ 176,569	\$ 233,313
Accumulated amortization and impairment	( 49,659)	-	( 49,659)
	<u>\$ 7,085</u>	<u>\$ 176,569</u>	<u>\$ 183,654</u>
<u>2018</u>			
At January 1	\$ 7,085	\$ 176,569	\$ 183,654
Additions	5,197	-	5,197
Amortization charges	( 5,489)	-	( 5,489)
Net exchange differences	210	1,917	2,127
At December 31	<u>\$ 7,003</u>	<u>\$ 178,486</u>	<u>\$ 185,489</u>
<u>At December 31, 2018</u>			
Cost	\$ 62,791	\$ 178,486	\$ 241,277
Accumulated amortization and impairment	( 55,788)	-	( 55,788)
	<u>\$ 7,003</u>	<u>\$ 178,486</u>	<u>\$ 185,489</u>

Note: Transfer from prepayments for equipment (shown as "Other non-current assets").

A. Details of amortization on intangible assets are as follows:

	Years ended December 31,	
	2019	2018
Cost of operating revenue	\$ 5,898	\$ 5,293
General and administrative expenses	196	196
	<u>\$ 6,094</u>	<u>\$ 5,489</u>

B. The Group carried out the impairment testing of goodwill on the balance sheet date. The recoverable amount of the cash-generation units is determined based on the value-in-use calculated using cash flow projections discounted from financial budgets approved by management covering a five-year-period. The discount rate used by management is 10.91%. The calculation of value-in-use for the cash-unit is mainly based on the future growth rates of operating revenues, historical information on gross margins and operating expenses ratios, and the future trend of industrial economy.

As a result of the analysis, the Group did not identify any impairments for the goodwill in the years 2019 and 2018 due to the recoverable amounts were higher than the carrying amounts of goodwill.

(8) Non-current assets

Item	December 31, 2019	December 31, 2018
Prepayments for equipment	\$ 7,723	\$ 106,676
Refundable deposits	4,568	3,425
Reserve account-demand deposits (Note)	2,311	-
Time deposits (Note)	314	371
Other non-current assets	2,892	-
	<u>\$ 17,808</u>	<u>\$ 110,472</u>

Note: Please refer to Note 8 for the information of the Group's pledged assets.

(9) Short-term borrowings

Type of borrowings	December 31, 2019	December 31, 2018	Interest rate range	Collateral
Bank borrowings				
Secured borrowings	<u>\$ 20,000</u>	<u>\$ 20,300</u>	1.75%~2.22%	Time deposit (Note)

Note: Please refer to Note 8 for the information of the Group's assets pledged to secured borrowings.

(10) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2019	December 31, 2018
Subsidiary-Global Communication Semiconductor, LLC					
Secured borrowings (Note 1)	(Note 3)	4.00%	Land and buildings (Note 5)	\$ 56,041	\$ 78,242
Subsidiary- D-Tech Optoelectronics (Taiwan) Corporation					
Secured borrowings (Note 1)	(Note 4)	2.67%	(Note 2)	<u>9,204</u>	<u>-</u>
				65,245	78,242
Less: Current portion				( <u>23,050</u> )	( <u>20,818</u> )
				<u>\$ 42,195</u>	<u>\$ 57,424</u>

Note 1: According to the secured loan contract, the Group was required to comply with certain financial covenants by maintaining certain financial ratios, such as debt coverage ratio, on an annual basis. As of December 31, 2019 and 2018, the Group had not violated any of the required financial covenants.

Note 2: The Group commits to hold 100% equity interests of outstanding shares in its wholly-owned subsidiary, D-Tech Optoelectronics (Taiwan) Corporation, and to maintain its management right throughout the duration of the secured loan contract. In addition, the Group deposited 20% and 30% of demand deposit to the reserve account for drawing amount under and over \$10,000, respectively. Please refer to Note 8 for the information of the Group's assets pledged for secured borrowings.

Note 3: Borrowing period is from August 6, 2015 to August 6, 2022; interest and principal are repayable monthly.

Note 4: Borrowing period is from September 4, 2019 to July 4, 2021; interest and principal are repayable monthly.

Note 5: Please refer to Note 8 for the information of the Group's assets pledged for secured borrowings.

(11) Other payables

	December 31, 2019	December 31, 2018
Accrued salaries and bonuses	\$ 66,189	\$ 48,852
Accrued unused compensated absences	25,670	27,117
Accrued employees' compensation and directors' remuneration	24,208	29,431
Payables for equipment	12,691	27,460
Accrued utilities	2,515	2,089
Accrued professional service fees	2,483	7,179
Accrued outsourcing manufacturing services charges	2,394	2,885
Accrued rental expenses	-	503
Other accrued expenses	21,630	18,764
	<u>\$ 157,780</u>	<u>\$ 164,280</u>

(12) Finance lease liabilities

Effective 2018

The Group leases machinery equipment under finance lease. Based on the terms of the lease contracts, the Group has the option to purchase the leased machinery equipment at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable when the leases expire. Future minimum lease payments and present value as of December 31, 2018 are as follows:

	December 31, 2018		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
No later than one year (shown as "Other current liabilities")	<u>\$ 4,793</u>	<u>(\$ 98)</u>	<u>\$ 4,695</u>

(13) Pension plan

A. The Group's US subsidiary has established a 401(K) pension plan (the "Plan") covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code (IRC), as well as discretionary matching contributions below 15% of employees' salaries from the Company's subsidiary to its employees' individual pension accounts.

B. The Group's Taiwan subsidiaries have established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company's Taiwan subsidiaries contribute monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual

pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment.

C. The pension costs under the above pension plans of the Group for the years ended December 31, 2019 and 2018 amounted to \$18,358 and \$19,073, respectively.

(14) Share-based payment-employee compensation plan

A. Through December 31, 2019 and 2018, the Group's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting condition
Employee stock options	April 2013	1,538,000 shares	10 years	(Note 1)
Employee stock options	October 2013	538,000 shares	10 years	(Note 1)
Employee stock options	November 2014	75,000 shares	10 years	(Note 1)
Employee stock options	January 2015	30,000 shares	10 years	(Note 1)
Employee stock options	February 2015	652,200 shares	10 years	(Note 1)
Employee stock options	March 2016	5,000 shares	10 years	(Note 1)
Employee stock options	August 2016	895,000 shares	10 years	(Note 1)
Employee stock options	November 2016	34,000 shares	10 years	(Note 1)
Employee stock options	February 2017	15,000 shares	10 years	(Note 1)
Employee stock options	August 2017	215,000 shares	10 years	(Note 1)
Employee stock options	January 2018	13,000 shares	10 years	(Note 1)
Employee stock options	February 2018	355,000 shares	10 years	(Note 1)
Employee stock options	August 2018	27,000 shares	10 years	(Note 1)
Employee stock options	November 2018	5,000 shares	10 years	(Note 1)
Employee stock options	March 2019	578,000 shares	10 years	(Note 1)
Employee stock options	August 2019	40,000 shares	10 years	(Note 1)
Restricted stocks to employees (Note 3)	January 2016	93,700 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	March 2016	8,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	August 2017	180,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	February 2018	398,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	September 2018	28,000 shares	2 years	(Note 2)
Restricted stocks to employees (Note 3)	March 2019	570,000 shares	2 years	(Note 2)

Note 1: Some employee stock options shall be vested and become exercisable up to 50% of the shares after fulfilling two years of service, and in accordance with the agreement, the remaining 50% of such options will be vested ratably in equal installments as of the last day of each of the succeeding 24 months.



Note 2: Some restricted stocks to employees shall be vested up to 50% of the shares after one year of service, and the remaining 50% of such shares to be vested after fulfilling two years of service.

Note 3: The restricted stocks to employees are restricted from transferring within vesting period, but are allowed for voting rights and rights to receive dividends. The Company will recover restricted stocks at no consideration and cancel registration if employees resign or die not due to occupational hazards. However, employees do not need to return dividends already received.

B. Details of the employee stock options are set forth below:

	Year ended December 31, 2019		
	No. of options	Currency	Weighted average exercise price
			(in dollars)
Options outstanding at beginning of the year	2,029,457	NTD	\$ 58.48
Options granted	618,000	NTD	60.60
Options exercised	( 119,378)	NTD	37.70
Options forfeited	( 5,000)	NTD	64.00
Options outstanding at end of the year	<u>2,523,079</u>	NTD	58.45
Options exercisable at end of the year	<u>1,539,537</u>	NTD	52.35

	Year ended December 31, 2018		
	No. of options	Currency	Weighted average exercise price
			(in dollars)
Options outstanding at beginning of the year	1,912,541	NTD	\$ 50.44
Options granted	400,000	NTD	81.95
Options exercised	( 223,084)	NTD	26.49
Options forfeited	( 60,000)	NTD	77.77
Options outstanding at end of the year	<u>2,029,457</u>	NTD	58.48
Options exercisable at end of the year	<u>1,178,924</u>	NTD	48.61

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2019 and 2018 was \$66.09 (in dollars) and \$77.60 (in dollars), respectively.

D. As of December 31, 2019, and 2018, the range of exercise prices of stock options outstanding are as follows:

Grant date	Expiry date	December 31, 2019		
		No. of Shares	Currency	Stock options exercise price (in dollars)
April 2013	April 2023	160,146	NTD	\$ 11.10
October 2013	October 2023	12,397	NTD	17.30
November 2014	November 2024	53,667	NTD	31.90
February 2015	February 2025	257,869	NTD	40.20
March 2016	March 2026	5,000	NTD	69.20
August 2016	August 2026	815,000	NTD	64.10
November 2016	November 2026	26,000	NTD	62.70
February 2017	February 2027	15,000	NTD	55.70
August 2017	August 2027	205,000	NTD	64.80
January 2018	January 2028	13,000	NTD	84.50
February 2018	February 2028	315,000	NTD	81.40
August 2018	August 2028	22,000	NTD	62.30
November 2018	November 2028	5,000	NTD	48.20
March 2019	March 2029	578,000	NTD	59.50
August 2019	August 2029	40,000	NTD	58.00
		<u>2,523,079</u>		

		December 31, 2018		
Grant date	Expiry date	No. of Shares	Currency	Stock options exercise price  (in dollars)
April 2013	April 2023	170,396	NTD	\$ 11.35
October 2013	October 2023	33,335	NTD	17.63
November 2014	November 2024	54,188	NTD	32.65
January 2015	January 2025	7,500	NTD	42.09
February 2015	February 2025	313,038	NTD	41.21
March 2016	March 2026	5,000	NTD	71.01
August 2016	August 2026	840,000	NTD	65.73
November 2016	November 2026	26,000	NTD	64.40
February 2017	February 2027	15,000	NTD	57.10
August 2017	August 2027	205,000	NTD	66.50
January 2018	January 2028	13,000	NTD	86.70
February 2018	February 2028	315,000	NTD	83.60
August 2018	August 2028	27,000	NTD	64.00
November 2018	November 2028	5,000	NTD	49.50
		<u>2,029,457</u>		

E. Details of the restricted stocks to employees are set forth below:

Employee restricted stocks	Years ended December 31,	
	2019	2018
	No. of shares	No. of shares
Outstanding at beginning of the year	510,500	215,850
Granted (Notes 1 and 2)	570,000	426,000
Vested	( 290,000)	( 125,850)
Retired	( 22,500)	( 5,500)
Outstanding at end of the year	<u>768,000</u>	<u>510,500</u>

Note 1: For the restricted stocks granted with the compensation cost accounted for using the fair value method, the fair values on the grant date are calculated based on the closing price on the grant date.

Note 2: The fair value of restricted stocks granted in March 2019, February 2018, and September 2018 was \$60.70 (in dollars), \$83.60 (in dollars) and \$55.40 (in dollars), respectively.

F. For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model and discounted cash flow valuation. The parameters used in the estimation of the fair value are as follows:

Type of arrangement	Grant date	Currency	Fair value (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option period (years)	Expected dividend yield rate	Risk-free interest rate	Weighted average fair value (in dollars)
Employee stock options	January 2018	NTD	\$ 86.43	\$ 86.70	42.83%	6.26	1.00%	0.97%	\$ 45.74
Employee stock options	February 2018	NTD	84.61	83.60	45.43%	6.26	1.00%	0.97%	46.31
Employee stock options	August 2018	NTD	67.41	64.00	32.93%	6.26	1.00%	0.90%	38.38
Employee stock options	November 2018	NTD	50.24	49.50	58.84%	6.26	1.00%	0.89%	34.22
Employee stock options	March 2019	NTD	57.58	60.70	37.33%	6.26	1.00%	0.78%	36.30
Employee stock options	August 2019	NTD	58.36	59.20	24.47%	6.26	1.00%	0.66%	29.14

G. Expenses incurred on share-based payment transactions are shown below:

	Years ended December 31,	
	2019	2018
Equity-settled	\$ 48,106	\$ 49,618

(15) Common stock

A. As of December 31, 2019, the Company's paid-in capital was \$908,335, consisting of 90,833,504 shares with a par value of \$10 (in dollars) per share.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	Unit: Numbers of shares	
	2019	2018
Outstanding ordinary shares at January 1	80,789,626	79,059,886
Exercise of employee stock options	119,378	223,084
Conversion of convertible bonds	-	1,086,156
Issuance of restricted stocks to employees	570,000	426,000
Retirement of restricted stocks to employees	( 22,500)	( 3,000)
Retrieved restricted stocks to employees, not yet retired	-	( 2,500)
Issuance of share capital - Global Depository Receipts	8,000,000	-
Outstanding ordinary shares at December 31	89,456,504	80,789,626
Treasury stocks	1,377,000	1,377,000
Issued ordinary shares at December 31	90,833,504	82,166,626

- B. On June 1, 2017, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 8, 2017. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 21, 2017 and February 27, 2018, the Board of Directors adopted a resolution to grant 180,000 and 398,000 employee restricted stocks, respectively. In April 2018, October 2018, January 2019 and July 2019, the Company had retrieved 3,000, 2,500, 8,000 and 1,500 employee restricted stocks, respectively, due to the employees' resignation, and the retrieved shares have been retired.
- C. On May 15, 2018, the shareholders adopted a resolution to reserve 1,000,000 shares for the purpose of granting employee restricted stocks with par value of \$10 (in dollars) per shares, with the effective date filed with the regulator on August 16, 2018. The subscription price is \$0 (in dollar) per share. The employee restricted stocks issued are subject to certain transfer restrictions before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares. On August 2, 2018 and March 5, 2019, the Board of Directors resolved to grant 28,000 and 570,000 employee restricted stocks, respectively. In May and September 2019, the Company had retrieved 13,000 employee restricted stocks in total due to the employees' resignation, and the retrieved shares have been retired.
- D. On April 2, 2018, the Board of Directors resolved to increase cash capital by issuing ordinary shares for participating in issuance of Global Depositary Receipts ("GDRs") in order to fund the purchase of plant, machinery and equipment, and overseas purchases of raw materials. On July 31, 2018, the Company received the official letter No. 1070326367 from the FSC of approval of the issuance of ordinary shares for participating in issuance of GDRs, while on October 31, 2018, the Company received another official letter No.1070118798 for the extension of three months to complete the aforementioned issuance. On December 19, 2018, the Board of Directors resolved to adjust the number of shares to be issued from the range of 15,000,000 to 25,000,000 ordinary shares to 8,000,000 to 25,000,000 ordinary shares. The aforementioned adjustment was approved by the FSC with the receipt of the official letter No.1070121974. The Company's GDRs began trading on the Luxembourg Stock Exchange on January 21, 2019.

The actual units of GDRs for this offering were 1,600,000 and each GDR represents five of the Company's ordinary shares, which in the aggregate representing 8,000,000 ordinary shares. The offering price per GDR was US\$8.20 (in dollars). The actual cash received was US\$12,989 thousand (approximately \$400,717) after deducting issuance costs. The fundraising had been fully collected by the Company as of January 22, 2019, and the change registration of this capital increase had been completed. As of December 31, 2019, the outstanding GDRs were 1,200 thousand units, or 6,000 thousand shares of common stock, representing 6.61% of the Company's total common stocks.

The terms of GDR are as follows:

(a) Voting rights

The voting right of GDR holders may, pursuant to the Depositary Agreement and the relevant laws and regulations of the R.O.C., exercise the voting rights pertaining to the underlying common shares represented by the GDRs.

(b) Dividends, stocks warrant and other rights

GDR holders and common shareholders are all entitled to receive dividends, stock warrants and other rights.

E. Treasury stocks

(a) Reason for share repurchase and the number of the Company's treasury stocks are as follows:

		<u>December 31, 2019</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

		<u>December 31, 2018</u>	
<u>Name of company holding the shares</u>	<u>Reason for repurchase</u>	<u>Number of shares</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	1,377,000	\$ 90,870

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

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

(d) Pursuant to the R.O.C. Securities and Exchange Act, treasury stocks should be reissued to the employees within three years from the date of repurchase, and shares not reissued within the three-year period are to be retired. Treasury stocks to enhance the Company's credit rating and the shareholders' equity should be retired within six months of repurchase.

(16) Capital surplus

Capital surplus can be used to cover accumulated deficit or distributed as dividend as proposed by the Board of Directors and resolved by the shareholders.

	2019				
	Share premium	Employee stock options	Employee restricted stocks	Others	Total
At January 1	\$ 965,170	\$ 57,456	\$ 38,457	\$ 31,552	\$ 1,092,635
Compensation costs of share-based payment	-	13,835	-	-	13,835
Issuance of restricted stocks to employees	-	-	28,927	-	28,927
Restricted stocks to employees vested	20,800	-	( 20,800)	-	-
Retrieve restricted stocks from employees	-	-	( 1,465)	-	( 1,465)
Exercise of employee stock options	10,011	( 6,544)	-	-	3,467
Issuance of share capital - GDRs	<u>310,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,555</u>
At December 31	<u>\$1,306,536</u>	<u>\$ 64,747</u>	<u>\$ 45,119</u>	<u>\$ 31,552</u>	<u>\$ 1,447,954</u>
	2018				
	Share premium	Employee stock options	Employee restricted stocks	Others	Total
At January 1	\$ 843,765	\$ 46,693	\$ 37,550	\$ 30,743	\$ 958,751
Compensation costs of share-based payment	-	20,690	-	-	20,690
Issuance of restricted stocks to employees	-	-	31,500	-	31,500
Restricted stocks to employees vested	30,251	-	( 30,251)	-	-
Retrieve restricted stocks from employees	-	-	( 342)	-	( 342)
Exercise of employee stock options	12,854	( 9,118)	-	-	3,736
Conversion of convertible bonds	78,300	-	-	-	78,300
Forfeiture of employee stock options	<u>-</u>	<u>( 809)</u>	<u>-</u>	<u>809</u>	<u>-</u>
At December 31	<u>\$ 965,170</u>	<u>\$ 57,456</u>	<u>\$ 38,457</u>	<u>\$ 31,552</u>	<u>\$ 1,092,635</u>

(17) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset losses incurred in previous years and then a special reserve as required by the applicable securities authority under the applicable public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time deem appropriate, subject to the compliance with the Cayman Islands Companies Law, the Company shall distribute no less than 10% of the remaining profit as dividends to the shareholders.
- B. The Company's dividend policy is as follows: As the Company operates in a capital intensive industry and in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's operation scale, cash flow demand and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed.
- C. The appropriations of 2018 earnings had been resolved by the shareholders' meeting on June 5, 2019 and the appropriations of 2017 earnings had been resolved by the shareholders' meeting on May 15, 2018. Details are summarized below:

	<u>2018</u>		<u>2017</u>	
		Dividends per share (in dollars)		Dividends per share (in dollars)
	<u>Amount</u>		<u>Amount</u>	
Cash dividends	<u>\$ 106,561</u>	<u>\$ 1.20</u>	<u>\$ 79,060</u>	<u>\$ 1.00</u>

Information on the above as proposed by the Board of Directors and resolved by the shareholders' meeting will be posted in the "Market Observation Post System" at the website of Taiwan Stock Exchange.

- D. On March 16, 2020, the Board of Directors proposed that total dividends for the distribution of earnings for the year of 2019 was \$45,623 at NT\$0.51 (in dollars) per share.
- E. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(23).



(18) Other equity interest

	2019		
	Currency translation differences	Unearned employee compensation	Total
At January 1	\$ 43,005	(\$ 15,200)	\$ 27,805
Currency translation differences	( 85,048)	-	( 85,048)
Compensation costs of share-based payment	-	34,271	34,271
Issuance of restricted stocks to employees	-	( 34,627)	( 34,627)
Retrieve restricted stocks from employees	-	1,715	1,715
At December 31	<u>(\$ 42,043)</u>	<u>(\$ 13,841)</u>	<u>(\$ 55,884)</u>

	2018		
	Currency translation differences	Unearned employee compensation	Total
At January 1	(\$ 35,464)	(\$ 8,760)	(\$ 44,224)
Currency translation differences	78,469	-	78,469
Compensation costs of share-based payment	-	28,928	28,928
Issuance of restricted stocks to employees	-	( 35,760)	( 35,760)
Retrieve restricted stocks from employees	-	392	392
At December 31	<u>\$ 43,005</u>	<u>(\$ 15,200)</u>	<u>\$ 27,805</u>

(19) Operating revenue

	Years ended December 31,	
	2019	2018
Revenue from contracts with customers	<u>\$ 1,786,334</u>	<u>\$ 1,952,411</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

	Year ended December 31, 2019			
	Sales revenue	Service revenue	Royalty revenue	Total
China	\$ 923,585	\$ 11,591	\$ 3,040	\$ 938,216
United States	647,989	-	33	648,022
Taiwan	112,214	-	12,928	125,142
Others	74,954	-	-	74,954
	<u>\$ 1,758,742</u>	<u>\$ 11,591</u>	<u>\$ 16,001</u>	<u>\$ 1,786,334</u>

	Year ended December 31, 2018			
	Sales revenue	Service revenue	Royalty revenue	Total
China	\$ 935,495	\$ 15,075	\$ 2,132	\$ 952,702
United States	724,517	-	38	724,555
Taiwan	180,477	-	26,619	207,096
Others	68,058	-	-	68,058
	<u>\$ 1,908,547</u>	<u>\$ 15,075</u>	<u>\$ 28,789</u>	<u>\$ 1,952,411</u>

#### B. Contract liabilities

The Group has recognized the following revenue-related contract liabilities:

	December 31, 2019	December 31, 2018	January 1, 2018
Contract liabilities – advance sales receipts	<u>\$ 11,875</u>	<u>\$ 16,302</u>	<u>\$ 24,149</u>

Revenue recognized that was included in the contract liability balance at the beginning of the years:

	Years ended December 31,	
	2019	2018
Contract liabilities – advance sales receipts	<u>\$ 16,032</u>	<u>\$ 21,582</u>

#### (20) Other gains and losses

	Years ended December 31,	
	2019	2018
Loss on disposal of property, plant and equipment	(\$ 586)	\$ -
Net currency exchange (losses) gains	( 445)	1,523
Net gains on financial liabilities at fair value through profit or loss	-	2,322
Other losses	( 527)	( 1,749)
	<u>(\$ 1,558)</u>	<u>\$ 2,096</u>

(21) Finance costs

	Years ended December 31,	
	2019	2018
Interest expense	\$ 3,355	\$ 5,137
Leased liabilities - Interest expense	1,718	-
	<u>\$ 5,073</u>	<u>\$ 5,137</u>

(22) Expenses by nature

	Years ended December 31,	
	2019	2018
Employee benefit expense	\$ 781,492	\$ 780,081
Depreciation charges on property, plant and equipment and right-of-use assets	\$ 129,900	\$ 113,693
Amortization charges on intangible assets (recognized as cost of operating revenue and operating expenses)	\$ 6,094	\$ 5,489

(23) Employee benefit expense

	Years ended December 31,	
	2019	2018
Wages and salaries	\$ 651,780	\$ 647,967
Compensation costs of share-based payment	48,106	49,618
Insurance expenses	61,190	59,969
Pension costs	18,358	19,073
Other personnel expenses	2,058	3,454
	<u>\$ 781,492</u>	<u>\$ 780,081</u>

- A. According to the Articles of Incorporation of the Company, when distributing earnings, an amount equal to the ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be higher than 15% and lower than 5% for employees' compensation, and shall not be higher than 2% for directors' remuneration.
- B. For the years ended December 31, 2019 and 2018, employees' compensation was accrued at \$17,291 and \$21,022, respectively; directors' remuneration was accrued at \$6,917 and \$8,409, respectively. The aforementioned amounts were recognized in wages and salaries. The employees' compensation and directors' remuneration were estimated and accrued based on 5% and 2% of distributable profit of 2019. Employees' compensation and directors' remuneration of 2018 as resolved by the Board of Directors were in agreement with those amounts recognized in the 2018 financial statements. The employees' compensation will be distributed in the form of cash.

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

(24) Income tax

A. Income tax expense

Components of income tax expense:

	Years ended December 31,	
	2019	2018
Current tax:		
Current tax on profit for the year	\$ 28,162	\$ 38,836
Tax on undistributed surplus earnings	335	776
Prior year income tax over estimation	( 3,586)	( 4,773)
Total current tax	<u>24,911</u>	<u>34,839</u>
Deferred tax:		
Origination and reversal of temporary differences	33,714	40,085
Impact of change in tax rate	-	( 1,499)
Total deferred tax	<u>33,714</u>	<u>38,586</u>
Income tax expense	<u>\$ 58,625</u>	<u>\$ 73,425</u>

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2019	2018
Tax calculated based on profit before tax and statutory tax rate (Note)	\$ 98,009	\$ 121,819
Expenses disallowed by tax regulation	10,172	361
Tax exempt income by tax regulation	( 18,735)	( 15,685)
Change in assessment of realization of deferred tax assets.	( 27,570)	( 19,593)
Impact of change in tax rate	-	( 1,499)
Tax on undistributed surplus earnings	335	776
Prior year income tax over estimation	( 3,586)	( 4,773)
Utilization of foreign tax credit	-	( 7,981)
Income tax expenses	<u>\$ 58,625</u>	<u>\$ 73,425</u>

Note : The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and tax losses are as follows:

	2019			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
<u>Deferred tax assets:</u>				
Temporary differences:				
Unrealized allowance for inventory decline in market value	\$ 16,667	(\$ 4,331)	\$ -	\$ 12,336
State tax paid	7,498	( 382)	-	7,116
Accrued unused compensated absences	6,602	( 159)	-	6,443
Other	25,336	19,279	-	44,615
Loss carryforwards -U.S. Federal tax	88,346	( 36,068)	-	52,278
Loss carryforwards - Taiwan tax	13,315	( 6,822)	-	6,493
Alternative minimum tax - U.S. Federal tax	13,559	( 13,559)	-	-
Subtotal	<u>\$ 171,323</u>	<u>(\$ 42,042)</u>	<u>\$ -</u>	<u>\$ 129,281</u>
<u>Deferred tax liabilities:</u>				
Temporary differences:				
Depreciation - U.S. Federal tax	(\$ 72,888)	\$ 4,624	\$ -	(\$ 68,264)
Depreciation - U.S. state tax	( 11,530)	3,704	-	( 7,826)
Other	( 33)	-	-	( 33)
Subtotal	<u>(\$ 84,451)</u>	<u>\$ 8,328</u>	<u>\$ -</u>	<u>(\$ 76,123)</u>
Total	<u>\$ 86,872</u>	<u>(\$ 33,714)</u>	<u>\$ -</u>	<u>\$ 53,158</u>

2018

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
<u>Deferred tax assets:</u>				
Temporary differences:				
Unrealized allowance for inventory decline in market value	\$ 21,089	(\$ 4,422)	\$ -	\$ 16,667
State tax paid	8,508	( 1,010)	-	7,498
Accrued unused compensated absences	5,682	920	-	6,602
Other	18,959	6,377	-	25,336
Loss carryforwards -U.S. Federal tax	88,915	( 569)	-	88,346
Loss carryforwards - Taiwan tax	8,636	4,679	-	13,315
Alternative minimum tax - U.S. Federal tax	13,135	424	-	13,559
Subtotal	<u>\$ 164,924</u>	<u>\$ 6,399</u>	<u>\$ -</u>	<u>\$ 171,323</u>
<u>Deferred tax liabilities:</u>				
Temporary differences:				
Depreciation - U.S. Federal tax	(\$ 29,617)	(\$ 43,271)	\$ -	(\$ 72,888)
Depreciation - U.S. state tax	( 9,849)	( 1,681)	-	( 11,530)
Other	-	( 33)	-	( 33)
Subtotal	<u>(\$ 39,466)</u>	<u>(\$ 44,985)</u>	<u>\$ -</u>	<u>(\$ 84,451)</u>
Total	<u>\$ 125,458</u>	<u>(\$ 38,586)</u>	<u>\$ -</u>	<u>\$ 86,872</u>

D. Expiration dates of unused net operating loss carryforward and amounts of unrecognized deferred tax assets are as follows:

Federal tax :

December 31, 2019				
Year incurred (fiscal year end of tax returns)	Amount filed	Unused amount	Unrecognized amount (Note)	Usable until year (fiscal year end of tax returns)
2005.6.30	\$ 162,865	\$ -	\$ -	2024.12.31
2006.6.30	150,727	14,619	-	2025.12.31
2007.6.30	110,121	110,121	-	2026.12.31
2008.6.30	65,416	65,416	-	2027.12.31
2011.12.31	5,900	5,900	-	2031.12.31
2012.12.31	52,886	52,886	-	2032.12.31
	<u>\$ 547,915</u>	<u>\$ 248,942</u>	<u>\$ -</u>	

December 31, 2018

Year incurred (fiscal year end of tax returns)	Amount filed	Unused amount	Unrecognized amount (Note)	Usable until year (fiscal year end of tax returns)
2005.6.30	\$ 166,885	\$ 26,144	\$ -	2024.12.31
2006.6.30	154,447	154,447	-	2025.12.31
2007.6.30	112,840	112,840	-	2026.12.31
2008.6.30	67,030	67,030	-	2027.12.31
2011.12.31	6,045	6,045	-	2031.12.31
2012.12.31	54,191	54,191	-	2032.12.31
	<u>\$ 561,438</u>	<u>\$ 420,697</u>	<u>\$ -</u>	

E. Through December 31, 2019, the assessment of income tax returns of the Taiwan subsidiaries are as follows:

Name of subsidiary	Assessment of income tax returns
Global Device Technologies, Co., Ltd.	Assessed and approved up to 2017
D-Tech Optoelectronics (Taiwan) Corporation	Assessed and approved up to 2017

(25) Earnings per share (EPS)

The basic EPS is determined by the net income divided by the weighted average number of outstanding stocks. The diluted EPS is under the assumption that all potential ordinary stocks have been converted into ordinary stocks at the beginning of the year. The revenue and expense generated from the conversion shall be included in the computation.

Details of ordinary stocks per share are as follows:

	Year ended December 31, 2019		
	Amount after tax	Weighted average outstanding stocks (in thousand of shares)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 267,578	88,030	\$ 3.04
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 267,578	88,030	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	324	
Employee stock options	-	273	
Employee restricted stocks	-	691	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 267,578</u>	<u>89,318</u>	<u>\$ 3.00</u>

	Year ended December 31, 2018		
	Amount after tax	Weighted average outstanding stocks (in thousand of shares)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 320,302	79,880	\$ 4.01
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 320,302	79,880	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	-	452	
Employee stock options	-	340	
Employee restricted stocks	-	262	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 320,302	80,934	\$ 3.96

(26) Business combinations

The Acquisition of Xiamen San'an Integrated Circuit Co., Ltd.

A. The Company's Board of Directors approved on June 25, 2018 that the Company enter into an Equity Interest Transfer Agreement (the "Agreement") with Xiamen San'an Integrated Circuit Co., Ltd. ("San'an") to acquire the 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. ("Xiamen Global") in the amount of US\$80 thousand. After the completion of the transfer, Xiamen Global became a subsidiary of the Group. After the 2% shareholding of Xiamen Global was transferred to the Company, the Company's investment in Xiamen Global will be US\$2.04 million and San'an's investment will be US\$1.96 million, which represents 51% and 49% of the registered capital, respectively. The purpose of this equity transfer is to speed up the manufacturing transfer process, enabling the Group to accelerate the application of advanced production process in connection with 5<sup>th</sup> generation wireless system and other smartphones.



B. The following table summarizes the consideration paid for Xiamen Global and the fair values of the assets acquired, and liabilities assumed at the acquisition date:

	<u>September 30, 2018</u>
Consideration	
Cash paid (US\$80 thousand)	\$ 2,442
	<u>2,442</u>
Fair value of equity interest in Xiamen Global held before the business combination	11,401
Fair value of the non-controlling interest	<u>13,300</u>
	<u>27,143</u>
Fair value of the identifiable assets acquired and liabilities assumed	
Cash	27,263
Property, plant and equipment	52
Other payables	( 168)
Other current liabilities	<u>( 4)</u>
Total identifiable net assets	<u>27,143</u>
Goodwill	<u>\$ -</u>

C. The operating revenue and profit before income tax included in the consolidated statement of comprehensive income since September 2018 contributed by Xiamen Global were \$0 and (\$5,319), respectively. Had Xiamen Global been consolidated from January 1, 2018, the 2018 consolidated statement of comprehensive income would show an increase in operating revenue of \$0 and a decrease in profit before income tax of (\$6,862).

(27) Operating lease commitments

2018

The Group leases property and plant under non-cancellable operating lease agreements. Most of the lease agreements can be renewed based on the market prices upon termination of the lease. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>
Not later than one year	\$ 11,602
Later than one year but not later than five years	<u>30,811</u>
	<u>\$ 42,413</u>

(28) Supplemental cash flow information

A. Investing activities with partial cash payments:

	Years ended December 31,	
	2019	2018
Acquisition of property, plant and equipment (including transfers)	\$ 198,821	\$ 114,756
Add: Ending balance of prepayments for equipment (Note)	7,723	106,676
Less: Beginning balance of prepayments for equipment (Note)	( 106,676)	( 52,857)
Less: Beginning balance of prepayments for equipment being transferred to intangible assets	13,363	-
Less: Ending balance of finance lease liabilities	- (	4,695)
Add: Beginning balance of finance lease liabilities	-	13,872
Less: Ending balance of payables for equipment (	12,691)	( 27,460)
Add: Beginning balance of payables for equipment	27,460	5,703
Cash paid	<u>\$ 128,000</u>	<u>\$ 155,995</u>

Note: Shown as "Other non-current assets".

B. Financing activities with no cash flow effect:

	Years ended December 31,	
	2019	2018
Convertible bonds being converted to capital stocks	<u>\$ -</u>	<u>\$ 89,161</u>

(29) Changes in liabilities from financing activities

	Short-term	Lease liabilities	Long-term borrowings	Liabilities from
	borrowings	(including current portion)	(including current portion)	financing activities
At January 1, 2019	\$ 20,300	\$ 43,420	\$ 78,242	\$ 141,962
Changes in cash flow from financing activities	( 300)	( 15,108)	( 11,742)	( 27,150)
Interest expense	-	1,718	-	1,718
Interest paid	- (	1,718)	- (	1,718)
Net exchange differences	- (	331)	( 1,255)	( 1,586)
At December 31, 2019	<u>\$ 20,000</u>	<u>\$ 27,981</u>	<u>\$ 65,245</u>	<u>\$ 113,226</u>

	Short-term borrowings	Bonds payable	Long-term borrowings (including current portion)	Liabilities from financing activities
At January 1, 2018	\$ 20,000	\$ 60,006	\$ 95,163	\$ 175,169
Changes in cash flow				
from financing activities	300 (	2,800) (	19,621) (	22,121)
Bonds converted	- (	58,700)	- (	58,700)
Discount on bonds payable	-	1,494	-	1,494
Net exchange differences	-	-	2,700	2,700
At December 31, 2018	<u>\$ 20,300</u>	<u>\$ -</u>	<u>\$ 78,242</u>	<u>\$ 98,542</u>

## 7. RELATED PARTY TRANSACTIONS

### Key management compensation

	Years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	\$ 95,539	\$ 85,692
Post-employment benefits	2,419	2,593
Compensation costs of share-based payment	21,568	21,283
	<u>\$ 119,526</u>	<u>\$ 109,568</u>

## 8. PLEDGED ASSETS

As of December 31, 2019 and 2018, the Group's assets pledged as collateral were as follows:

Assets	December 31, 2019	December 31, 2018	Purpose
Land	\$ 138,058	\$ 141,466	Long-term borrowings
Buildings	80,425	85,103	Long-term borrowings
Time deposits (Shown as "Other current assets")	30,951	31,131	Short-term borrowings
Reserve account-demand deposits (Shown as "Other non-current assets")	2,311	-	Long-term borrowings
Time deposits (Shown as "Other non-current assets")	314	371	Custom guarantee for imported goods
Refundable deposits (Shown as "Other non-current assets")	4,568	3,425	Deposits for office rental and waste water treatment

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

- (1) Please refer to Note 6(27) for the operating lease commitments as of December 31, 2018.
- (2) Capital expenditures contracted for at the balance sheet date but not yet incurred and are cancellable without cause are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Property, plant and equipment	<u>\$ 45,732</u>	<u>\$ 16,491</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- A. On November 7, 2019, the Board of Directors resolved to participate in Unikorn Semiconductor Corporation's ("Unikorn") issuance of common stock for cash amounting to \$400,000 with 40 million shares. The Company had completed participation in Unikorn's issuance of common stock for cash by investing in \$400,000 (US\$13,793 thousand) on January 30, 2020 resulting in a shareholding of 36.06%.
- B. The appropriation of 2019 earnings had been proposed by the Board of Directors on March 16, 2020. Please refer to Note 6(17).

12. OTHERS

(1) Capital management

In order to safeguard the Group's ability to adapt to the changes in the industry and to accelerate the new product development, the Company's objective when managing capital is to maintain the sufficient financial resources to support the operating capital, capital expenditures, research and development activities, repayment of debts and dividend paid to shareholders, etc.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets measured at fair value through other comprehensive income	\$ 159,531	\$ -
Financial assets at amortized cost		
/Loans and receivables		
Cash and cash equivalents	\$ 1,838,994	\$ 1,512,863
Notes receivable	59	127
Accounts receivable	317,067	212,806
Other receivables	119,687	19,026
Guarantee deposits paid	4,568	3,425
Reserve account- demand deposits (Shown as "Other non-current assets")	2,311	-
Time deposits (over three-month period) (Shown as "Other current and non-current assets")	31,265	92,942
	<u>\$ 2,313,951</u>	<u>\$ 1,841,189</u>
<u>Financial liabilities</u>		
Financial liabilities at amortized cost		
Short-term borrowings	\$ 20,000	\$ 20,300
Accounts payable	15,872	19,423
Other payables	157,780	164,280
Finance lease liabilities (including current portion)	-	4,695
Long-term borrowings (including current portion)	65,245	78,242
	<u>\$ 258,897</u>	<u>\$ 286,940</u>
Lease liabilities	<u>\$ 27,980</u>	<u>\$ -</u>

B. Financial risk management policies

- a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.
- b) Risk management is carried out by the Group's finance team under policies approved by the Board of Directors. The Group's finance team identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units.

C. Significant financial risks and degrees of financial risks

a) Market risk

Foreign exchange risk

The Group's businesses are mainly conducted in its functional currency. Therefore, the foreign exchange risk is deemed minimal.

Cash flow and fair value interest rate risk

- i. The Group's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the years ended December 31, 2019 and 2018, the Group's borrowings at variable rate were denominated in the NTD.
- ii. Based on the simulations performed, the impact on post-tax profit of a 1% shift, with all other variables held constant, would be a maximum increase or decrease of \$196 and \$160 for the years ended December 31, 2019 and 2018, respectively, as a result of the decrease or increase in interest expense which is affected by variable rates.

b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the credit risk of financial assets at amortized cost.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of "BBB+" are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilization of credit limits is regularly monitored.
- iii. The Group does not hold any collateral as security for notes receivable and accounts receivable. As of December 31, 2019 and 2018, with no collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the the Group's notes receivable was \$59 and \$127, respectively, and the maximum exposure to credit risk in respect of the Group's accounts receivable was \$317,067 and \$212,806, respectively.

- iv. The Group adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- v. The Group adopts the assumption under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:  
If the contract payment were past due over 30 days, based on the terms, there would be a significant increase in credit risk on that instrument since initial recognition.
- vi. The Group wrote off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- vii. Estimation of expected credit loss for notes receivable and accounts receivable:
- a) The Group classifies customers' notes receivable and accounts receivable in accordance with credit risk on trade. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss.
- b) The Group used the forecastability of external research report to adjust historical and timely information for a specific period to assess the default possibility of notes receivable and accounts receivable. As of December 31, 2019 and 2018, the loss rate methodology is as follows:

Notes receivable	Not <u>past due</u>				
<u>At December 31, 2019</u>					
Expected loss rate	0%				
Total book value	<u>\$ 59</u>				
Loss allowance	<u>\$ -</u>				
	Not	Less	Less than	More than	
	past due	than 90	180 days and	180 days	
Accounts receivable	<u>past due</u>	<u>due</u>	<u>more than 90</u>	<u>past due</u>	<u>Total</u>
<u>At December 31, 2019</u>					
Expected loss rate	0%~1%	1%~15%	16%~31%	31%~100%	
Total book value	<u>\$ 237,419</u>	<u>\$ 75,581</u>	<u>\$ 2,721</u>	<u>\$ 6,409</u>	<u>\$ 322,130</u>
Loss allowance	<u>\$ 24</u>	<u>\$ 778</u>	<u>\$ 735</u>	<u>\$ 3,526</u>	<u>\$ 5,063</u>

Notes receivable	Not past due
<u>At December 31, 2018</u>	
Expected loss rate	0%
Total book value	\$ 127
Loss allowance	\$ -

	Not past due	Less than 90 days past due	Less than 180 days and more than 90 days past due	More than 180 days past due	Total
Accounts receivable	Not past due	Less than 90 days past due	Less than 180 days and more than 90 days past due	More than 180 days past due	Total
<u>At December 31, 2018</u>					
Expected loss rate	0%~1%	1%~15%	16%~31%	31%~75%	
Total book value	\$ 173,428	\$ 38,750	\$ 1,255	\$ -	\$ 213,433
Loss allowance	\$ 17	\$ 388	\$ 222	\$ -	\$ 627

c) Movements in relation to the Group applying the simplified approach to provide loss allowance for notes and accounts receivable was as follows:

	<u>2019</u>
	<u>Notes and accounts receivable</u>
At January 1	\$ 627
Provision for impairment	10,067
Write-offs	( 5,313)
Effect of foreign exchange	( 318)
At December 31	\$ 5,063
	<u>2018</u>
	<u>Notes and accounts receivable</u>
At January 1_IAS 39	\$ 1,117
Adjustments under new standards	-
At January 1_IFRS 9	1,117
Provision for impairment	( 515)
Effect of foreign exchange	25
At December 31	\$ 627



vii. The Group used the forecastability of external research report to adjust historical and timely information for a specific period to assess the default possibility of other receivables. As of December 31, 2019 and 2018, the loss rate methodology is as follows:

Other receivables	<u>Not past due</u>
<u>At December 31, 2019</u>	
Expected loss rate	0%-100%
Total book value	<u>\$ 19,687</u>
Loss allowance	<u>\$ -</u>

Other receivables	<u>Not past due</u>
<u>At December 31, 2018</u>	
Expected loss rate	0%-100%
Total book value	<u>\$ 19,026</u>
Loss allowance	<u>\$ -</u>

c) Liquidity risk

- i. Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group's finance team. The Group's finance team monitors rolling forecasts of the Group's liquidity requirements to ensure the Group has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.
- ii. Surplus cash held by the operating entities over and above balance required for working capital management are managed for investment appropriately. The instruments chose would be with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.
- iii. The Group has the following undrawn borrowing facilities:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Floating rate:		
Expiring within one year	<u>\$ 16,796</u>	<u>\$ 25,700</u>

Note: The facilities expiring within one year are annual facilities subject to renegotiation at various dates during 2020.

iv. The table below analyzes the Group's non-derivative financial liabilities and net-settled or gross-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities and to the expected maturity date for derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2019		
Short-term borrowings	\$ 20,029	\$ -
Accounts payable	15,872	-
Other payables	157,780	-
Lease liabilities	10,830	18,680
Long-term borrowings (including current portion)	25,172	45,641
	<u>Less than 1 year</u>	<u>Over 1 year</u>
<u>Non-derivative financial liabilities:</u>		
December 31, 2018		
Short-term borrowings	\$ 20,340	\$ -
Accounts payable	19,423	-
Other payables	164,280	-
Finance lease liabilities	4,793	-
Long-term borrowings (including current portion)	23,604	62,529

### (3) Fair value information

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

Except for the item listed in the table below, the carrying amounts measured at amortized cost approximate the fair values of the Group's financial instruments, including cash and cash equivalents, notes receivable, accounts receivable, other receivables, guarantee deposits paid, time deposits (over three-month period), short-term borrowings, current contract liabilities, accounts payable, other payables, lease liabilities, finance lease liabilities (accounted for under 'Other current liabilities') and long-term borrowings (including current portion).

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

(a) The related information of natures of the assets is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2019			
<u>Recurring fair value measurements</u>			
Financial assets measured at fair value through other comprehensive income	\$ -	\$ -	\$ 159,531

As of December 31, 2018, the Group had no financial and non-financial instruments measured at fair value.

D. The following chart is the movement of Level 3 financial instruments for the years ended December 31, 2019 and 2018:

	<u>Financial assets measured at fair value through other comprehensive income</u>	<u>Financial liabilities at fair value through profit or loss</u>
	<u>2019</u>	<u>2018</u>
At January 1	\$ -	\$ 31,204
Converted during the year	-	( 28,961)
Gain recognized in profit or loss	-	( 2,322)
Acquired in the year	164,000	-
Net exchange differences	( 4,469)	79
At December 31	<u>\$ 159,531</u>	<u>\$ -</u>

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

F. The Group's Accounting Department is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

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

	Fair value at December 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of input to fair value
Non-derivative equity instrument: Unlisted stocks	\$ 159,531	Market comparable companies	Price to book ratio multiple	4.69	The higher the multiple, the higher the fair value.
			Discount for lack of marketability	20% - 30%	The higher the discount for lack of marketability, the lower the fair value.

As of December 31, 2018, the Group had no financial instruments measured in Level 3 fair value measurement.

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

		December 31, 2019			
		Recognized in profit or loss		Recognized in other comprehensive income	
Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets					
Unlisted stocks	multiple ±1%	\$ -	\$ -	\$ 3,226	(\$ 3,260)

As of December 31, 2018, the Group had no financial instruments measured in Level 3 fair value measurement.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- (a) Loans to others: Please refer to table 1.
- (b) Provision of endorsements and guarantees to others: Please refer to table 2.
- (c) Holding of marketable securities at the end of the year (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- (d) Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- (e) Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- (f) Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- (g) Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (h) Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- (i) Derivative financial instruments undertaken during the year ended December 31, 2019: None.
- (j) Significant inter-company transactions during the year ended December 31, 2019: Please refer to table 9.

#### (2) Information on investees

Names, locations and other information of investee companies (not including investees in mainland China): Please refer to table 10.

#### (3) Information on investments in mainland China

Please refer to table 11.

#### 14. SEGMENT INFORMATION

##### (1) General information

The Company operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Company has only one reportable operating segment.

##### (2) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	Years ended December 31,	
	2019	2018
Revenue from external customers	\$ 1,786,334	\$ 1,952,411
Inter-segment revenue	-	-
Total segment revenue	\$ 1,786,334	\$ 1,952,411
Segment income (Note)	\$ 321,621	\$ 391,014
Segment assets	\$ 3,902,999	\$ 3,402,284
Segment liabilities	\$ 375,891	\$ 389,499

Note: Exclusive of income tax.

##### (3) Reconciliation for segment income (loss)

The Company and subsidiaries engage in a single industry. The Chief Operating Decision-Maker assesses performance and allocates resources of the whole group. The Company is regarded as a single operating segment. Therefore, there is no inter-segment revenue. The revenue from external parties reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. The amount provided to the Chief Operating Decision-Maker with respect to total assets is measured in a manner consistent with that in the balance sheet.

The application of IFRS 16, 'Leases', had the following impact on the segment information in 2019.

	United States	Taiwan	Total
Depreciation expense increased	\$ 13,388	\$ 2,224	\$ 15,612
Segment assets increased	\$ 22,958	\$ 7,413	\$ 30,371
Segment liabilities increased	\$ 16,403	\$ 11,578	\$ 27,981

##### (4) Information on products and services

Please refer to Note 6(19) for the related information.

##### (5) Geographical information

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

Area	Years ended December 31,			
	2019		2018	
	Revenue	Non-current assets	Revenue	Non-current assets
China	\$ 938,216	\$ 38	\$ 952,702	\$ 50
United States	648,022	979,245	724,555	994,688
Taiwan	125,142	38,844	207,096	24,864
Others	74,954	-	68,058	-
	<u>\$ 1,786,334</u>	<u>\$ 1,018,127</u>	<u>\$ 1,952,411</u>	<u>\$ 1,019,602</u>

(6) Major customer information

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

	Years ended December 31,			
	2019		2018	
	Revenue	% of sales	Revenue	% of sales
H	\$ 554,055	31	\$ 391,603	20

GCS HOLDINGS, INC.

Loans to others

Year ended December 31, 2019

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

No. (Note 1)	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2019 (Note 3)	Balance at December 31, 2019	Actual amount drawn down	Interest rate	Nature of loan (Note 2)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral Item Value	Limit on loans granted to a single party (Note 3)	Ceiling on total loans granted (Note 3)	Footnote
0	GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	Other receivable - related party	Yes	\$ 63,200	\$ 59,960	\$ -	Settle by contract	2	\$ -	Operation	\$ -	None	\$ 352,132	\$ 1,408,526	-
1	Global Communication Semiconductors, Inc. LLC	D-Tech Optoelectronics, Inc.	Other receivable - related party	Yes	40,000	40,000	-	Settle by contract	2	-	Operation	-	None	1,079,495	1,079,495	-
1	Global Communication Semiconductors, LLC	D-Tech Optoelectronics Corporation	Other receivable - related party	Yes	61,480	59,960	-	Settle by contract	2	-	Operation	-	None	1,079,495	1,079,495	-

Note 1: The numbers filled in for the loans provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: The column of 'Nature of loan' shall fill in 'Business transaction or 'Short-term financing'.

(1)The business transaction is '1'.

(2)The short-term financing is '2'.

Note 3: According to the Company's "Procedures for Lending Funds to Other Parties", the total amount available for lending purpose shall not exceed forty percent (40%) of the net worth of the Company. The total amount for lending to a company having business relationship with the Company shall not exceed the total transaction amount between the parties during the period of twelve (12) months prior to the time of lending (For the purpose of this Procedure, the "transaction amount" shall mean the sales or purchasing amount between the parties, whichever is higher), and shall not exceed ten percent (10%) of the net worth of the Company. The total amount for funding for a short-term period shall not exceed ten percent (10%) of the net worth of the Company. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth, provided that this restriction will not apply to subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company. The total amount for fund-lending between the subsidiaries whose voting shares are 100% owned, directly or indirectly, by the Company will not be subject to the limit of forty percent (40%) of the net worth of the lending subsidiary.



GCS HOLDINGS, INC.

Provision of endorsements and guarantees to others

Year ended December 31, 2019

Expressed in thousands ofNTD  
(Except as otherwise indicated)

Table 2

Number (Note 1)	Endorser/ guarantor	Company name	Relationship with the endorser/ guarantor (Note 2)	Limit on endorsements/ guarantees provided for a single party (Note 3)	Maximum outstanding endorsement/ guarantee amount for the year ended December 31, 2019	Outstanding endorsement/ guarantee amount at December 31, 2019	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 3)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in mainland China	Footnote
0	GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	2	\$ 1,408,526	\$ 31,600	\$ 29,980	\$ 20,000	\$ 29,980	0.85%	\$ 1,408,526	Y	N	N	-

Note 1: The numbers filled in for the endorsements/guarantees provided by the Company or subsidiaries are as follows:

(1)The Company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between the endorser/guarantor and the party being endorsed/guaranteed is classified into the following seven categories; fill in the number of category each case belongs to:

(1)Having with which it does business.

(2)The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed subsidiary.

(3)The endorser/guarantor parent company owns directly or indirectly more than 50% voting shares of the endorsed/guaranteed company.

(4)The endorsed/guaranteed parent company owns directly or indirectly more than jointly 90% voting shares of the endorser/guarantor company.

(5)Mutual guarantee of the trade or co-contractor as required by the construction contract.

(6)Due to joint venture, mutual shareholder provides endorsements/guarantees to the endorsed/guaranteed company in ratio to its ownership.

(7)Companies in the same industry provide among themselves joint and several security for a performance guarantee of sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other.

Note 3: According to the Company's "Procedures for Endorsement and Guarantee", the total amount of endorsement/guarantee provided by the Company is limited to forty percent (40%) of the Company's net worth, and the total amount of the guarantee provided by the Company to any individual entity is limited to ten percent of the Company's net worth. The total amount of the guarantee provided by the Company to any subsidiary whose voting shares are 100% owned, directly or indirectly, by the Company shall not exceed forty percent (40%) of the Company's net worth.

The aggregate total amount of endorsement/guarantee provided by the Company and its subsidiaries shall not exceed fifty percent (50%) of the Company's net worth.

GCS HOLDINGS, INC.

Holding of marketable securities at the end of the period

December 31, 2019

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 3

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of December 31, 2019			Footnote (Note 4)	
				Number of shares	Book value (Note 3)	Ownership (%)		Fair value
GCS Holdings, Inc.	Unikorn Semiconductor Corporation	None.	Financial assets at fair value through other comprehensive income	16,400,000	\$ 159,531	14.09%	\$ 159,531	None

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities within the scope of IFRS 9 'Financial instrument'.

Note 2: Leave the column blank if the issuer of marketable securities is non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value;

fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

GCS HOLDINGS, INC.

Significant inter-company transactions during the reporting period  
Year ended December 31, 2019

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 9

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
1	D-Tech Optoelectronics, Inc.	Global Communication Semiconductors, LLC	3	Sales revenue	\$ 22,243	Conducted in the ordinary course of business with terms similar to those with third parties	1.25%
1	D-Tech Optoelectronics, Inc.	Global Communication Semiconductors, LLC	3	Other receivable - related party	1,022	Conducted in the ordinary course of business with terms similar to those with third parties	0.03%
2	D-Tech Optoelectronics (Taiwan) Corporation	Global Communication Semiconductors, LLC	3	Sales revenue	25,445	Conducted in the ordinary course of business with terms similar to those with third parties	1.42%
2	D-Tech Optoelectronics (Taiwan) Corporation	Global Communication Semiconductors, LLC	3	Other receivable - related party	2,364	Conducted in the ordinary course of business with terms similar to those with third parties	0.06%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Service revenue	29,488	Conducted in the ordinary course of business with terms similar to those with third parties	1.65%
2	D-Tech Optoelectronics (Taiwan) Corporation	D-Tech Optoelectronics, Inc.	3	Other receivable - related party	2,482	Conducted in the ordinary course of business with terms similar to those with third parties	0.06%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on year-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the year to consolidated total operating revenues for income statement accounts.

Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

GCS HOLDINGS, INC.  
Information on investees (not including investees in mainland China)  
Year ended December 31, 2019

Expressed in thousands of NTD  
(Except as otherwise indicated)

Table 10

Investor	Investee (Note 1 - 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019		Book value	Net profit (loss) of the investees for the year ended December 31, 2019 (Note 2(2))	Investment income (loss) recognised by the Company for the year ended December 31, 2019 (Note 2(3))	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)				
GCS Holdings, Inc.	Global Communication Semiconductors, LLC	Los Angeles, USA	1. Manufacturing of high-end radio frequency ICs, optoelectronic device compound semiconductor wafer and foundry related services as well as granting royalty rights for intellectual property. 2. Manufacturing and selling of advanced optoelectronics technology products	\$ 403,975	\$ 403,975	-	100%	\$ 2,698,737	\$ 307,465	\$ 307,465	-
GCS Holdings, Inc.	GCS Device Technologies, Co., Ltd.	Taiwan	Product design and research development services	12,000	12,000	-	100%	( 27,463 )	( 774 )	( 774 )	-
GCS Holdings, Inc.	GCOM Semiconductor Co., Ltd.	Taiwan	Wholesaling and retailing of electronic components, product design, and outsourcing management services	50,000	-	5,000,000	100%	( 49,713 )	( 287 )	( 287 )	-
Global Communication Semiconductors, LLC	D-Tech Optoelectronics, Inc.	Los Angeles, USA	Developing, manufacturing and selling of positive, intrinsic, negative components and avalanche photo diodes for telecommunication systems and data communication networks	393,380	393,380	360,000	100%	( 396,124 )	( 6,752 )	( 6,752 )	-
D-Tech Optoelectronics, Inc.	D-Tech Optoelectronics (Taiwan) Corporation	Taiwan	Manufacturing, retailing and wholesaling of telecommunications devices, and manufacturing and wholesaling of electronic components	89,840	89,840	5,800,000	100%	( 59,718 )	( 14,784 )	( 14,784 )	-

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1) The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount', and 'Shares held as at December 31, 2019' should fill orderly in the Company's (public company's) information on investees and every directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2) The 'Net profit (loss) of the investee for the year ended December 31, 2019' column should fill in amount of net profit (loss) of the investee for this year.
- (3) The 'Investment income (loss) recognised by the Company for the year ended December 31, 2019' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this year. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this year has included its investment income (loss) which shall be recognised by regulations.

GCS HOLDINGS, INC.  
Information on investments in mainland China  
Year ended December 31, 2019

Table 11

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to mainland China/				Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2019 (Note 2(2)(B))	Book value of investments in mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019
				Accumulated amount of remittance from Taiwan to mainland China as of January 1, 2019	Amount remitted back to Taiwan for the year ended December 31, 2019	Accumulated amount of remittance from Taiwan to mainland China as of December 31, 2019	Remitted to mainland China					
Xiamen Global Advanced Semiconductor Co., Ltd.	Developing, manufacturing and selling of mobile phone radio frequency, filter, optical communication chip, power management and optical fiber	\$ 30,633	2	\$ -	\$ -	\$ -	\$ -	51%	\$ 4,769	\$ 6,157	\$ -	
											(Note 4)	
Company name												
Xiamen Global Advanced Semiconductor Co., Ltd.		\$ -										

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

- (1) Directly invest in a company in mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in mainland China.
- (3) Others

Note 2: In the 'Investment income (loss) recognised by the Company for the year ended December 31, 2019' column:

- (1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this year.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:
  - A. The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - B. The financial statements that are audited and attested by R.O.C. parent company's CPA.
  - C. Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

Note 4: The Company was incorporated in Cayman Islands and investment amount of \$14,906 was transferred from the Company's U.S. bank account to mainland China on June 23, 2017.

In addition, the company acquired the additional 2% shareholding of Xiamen Global Advanced Semiconductor Co., Ltd. in the amount of US\$ 80 thousands (NT\$ 2,442 thousands) in September 2018. Xiamen Global Advanced Semiconductor Co., Ltd. had been terminated on March 12, 2020, and the funds will be remitted after the completion of liquidation process in mainland China.